

FINANCIAL TIMES

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MONDAY MARCH 23 1998



Good men in Africa
A new generation of leaders courts the US
Page 5



Workplace creativity
A little craziness often goes a long way
Lucy Kellaway Page 7



Futures trading
A new landscape beckons with fewer exchanges
Page 15

Today's surveys
Switzerland, Economic and monetary union
Separate sections

WORLD NEWS

French centre right faces demand from Le Pen to support his bid for power

Jean-Marie Le Pen, leader of France's far-right National Front, has demanded centre-right support for his bid to take charge of Provence-Alpes-Côte d'Azur, one of France's largest regional assemblies. Five centre-right UDF members were suspended from their party for accepting NF support in recent polls. Page 16

Korean peace preparations collapse
A deal to lock North and South Korea into a peace process unravelled after informal talks in the Swiss cheese-making village of Gruyères.

Three die in airport accident
A Philippine Airlines aircraft overshot a runway after landing in the central Philippines, hitting buildings and killing at least three people on the ground. Some of the 127 aboard the Airbus 320 were seriously injured.

White House tactic criticised
Republicans criticised the White House for invoking a seldom-used constitutional privilege to prevent top aides being questioned over the sex scandal allegations dogging President Bill Clinton. Page 4

Butler back in Baghdad
Chief UN weapons inspector Richard Butler said disarmament experts would complete their work swiftly if Iraq maintained its "new spirit" of co-operation. He was in Iraq for the first time since the crisis over the inspection of presidential sites.

Israel rejects peace initiative
Israel rejected a key element of a US peace initiative aimed at breaking the stalemate in Israeli-Palestinian peace talks. The proposal was said to involve Israel withdrawing from 13 per cent of the West Bank. Page 3

Belarus protesters take to streets
About 10,000 demonstrators marched through the Belarusian capital Minsk protesting against government plans to reintegrate the former Soviet republic with Russia.

Chinese dissident accuses Hong Kong US-based Chinese dissident Wang Bingzhang claimed Hong Kong immigration authorities acted on Beijing's instructions when they refused him entry at the weekend. Hong Kong denied Beijing was consulted. Page 4

Greek airline strike planned
Olympic Airways staff are to stop work for three hours tomorrow in protest at the way the government plans to revitalise the ailing Greek airline. Page 3

Neighbours help Brazil fight fires
Venezuelan and Argentine firefighters joined the international effort to put out the fires sweeping Brazil's northern Amazon region.

Kuwait oil minister named
Former Kuwait Information minister Sheikh Saad al-Sabah, who was criticised by Islamic lawmakers, was appointed oil minister. Last week the previous government resigned to avert the Islamic move to oust him.

Mormons set free in Russia
Two US Mormon missionaries kidnapped in southern Russia were freed after four days. Church officials said a \$300,000 ransom demand had not been paid.

Flying the flag in Tinsel Town
The British government is joining forces with the film industry to open a Hollywood office that will support British film makers in the US and tell the big studios what the UK can offer as a movie-making base. Page 6

Portugal's long lunch
Fifteen thousand people gathered on a new 10 mile bridge across Lisbon's River Tagus and ate seven tons of food on a wooden dining table 3.1 miles long. The \$1bn Vasco da Gama bridge will be opened formally next week.

BUSINESS NEWS

Regulators publish guidelines to help securities companies tighten risk control

International securities regulators will today publish guidelines for securities companies and their supervisory bodies on managing and controlling risk, in an attempt to avoid disasters such as the collapse of Barings, the UK investment bank. Page 16

Astra, Swedish pharmaceuticals group, may shift some research and development operations overseas because of high income tax and a shortage of scientists in Sweden. Page 17

Airbus Industrie, Toulouse-based aircraft building consortium, said it had received 179 orders, 90 of them firm, from three Latin American carriers for A319 and A320 aircraft.

Canada and other Indonesian airlines, hit by a fall in ticket sales and a collapse of the rupiah, are trying to renegotiate leasing payments and are handing back some aircraft, airline executives said. Page 4

Shell UK, British arm of the Anglo Dutch oil company, is expected to defer some North Sea oilfield development projects. Page 17

Monsieur Oil & Gas, UK independent exploration company, is expected to announce a controversial deal that will involve the export of oil through Iran. Page 21

Bertelsmann, German media company, said it would make an "important" strategic announcement, but would not comment on speculation that it was about to acquire a US publishing house. Page 21

Rolls-Royce Motor Cars of the UK, which is up for sale, has received interest from a third German party other than BMW and the Volkswagen group, insiders close to the sale said. Page 20

Hyundai Motor, largest of South Korea's four carmakers, is considering a bid for bankrupt Kia Motors. Page 22

Luigi Sirigu, Italian financier, sold his stakes in Cir and Cofice, ending speculation over the future of the two holding companies of former Olivetti chairman Carlo De Benedetti. Page 21

Tractebel, Belgian energy and engineering group, announced an 8.4 per cent increase in net profits for 1997 to BF16.4bn (\$438m). Page 22

Powerscreen International's finance director attended a meeting to discuss pricing problems at the Northern Irish engineer's Matbro subsidiary before Powerscreen issued shares without announcing the difficulties. Page 20

Metromail, US database company, is to open talks with American Business Information, Omaha-based business information group that has topped an agreed offer for Metromail by UK mail order house Great Universal Stores. Page 22

Moody's, US credit rating agency, cut the rating for Japan's Long Term Credit Bank to one level above "junk bond" status. Page 22

The Chinese city of Shenyang has offered to sell 50 troubled state companies at the bargain price of one yuan (about 12 cents) each as a way of tackling the problem of restructuring insolvent state-owned enterprises. Page 4

Malaysia's prime minister, Mahathir Mohamed, indicated a willingness to liberalise restrictions on foreign participation in local banks. Page 4

Aeroperfl di Roma, operator of Rome's airports, won the bidding for 20 per cent of Airports Company South Africa, which is being partly privatised by the South African government. Page 20

Oil producers in surprise deal to cut world supply

Up to 2m barrels a day could be withdrawn to shore up prices

By Robert Corzine in London

A surprise deal to shore up sagging world oil prices was struck at secret talks in Riyadh yesterday when Saudi Arabia, Venezuela and Mexico agreed to cut production. The deal could pave the way for as much as 1.6m-2m barrels a day being withdrawn from over-supplied world oil markets.

Crude oil prices and oil company shares are expected to react sharply today to news of the agreement, which comes just under a week after the price of crude slipped to nine-year lows. Yesterday's talks took place amid forecasts of a collapse in the oil price to single digits unless the main producers took immediate action to curb supply.

Joe Stanislaw, a director of Cambridge Energy Research Associates, a Paris-based consultancy, yesterday predicted that over time prices could rise by \$3-\$5 a barrel from their present level of just over \$13. But this would depend on how much unsold oil was at sea and whether markets believed the agreement would be adhered to.

The deal hammered out in the Saudi capital yesterday marks the first time since 1986 that members of the Organisation of Petroleum Exporting Countries and non-Opec producers have agreed to co-operate in stabilising battered world oil markets.

Prices have fallen by more than a third over the past five months in reaction to a growing global surplus and the prospect of even greater amounts of oil exports under an expanded oil-for-food programme.

It also marks at least a temporary end to a bitter confrontation between Saudi Arabia and Venezuela over Opec's oil production policy. Mexico is thought to have played a key role in bringing the two sides together.

Under the terms of yesterday's

deal, which takes effect on April 1 and runs until the end of the year, Saudi Arabia will match a combined 300,000 barrel a day cut offered by Mexico and Venezuela.

The tripartite agreement is the foundation for a more ambitious global reduction involving the main Opec and non-Opec producers. Representatives of the main producing countries may meet as early as this week to formalise a co-ordinated effort. The cuts will fall outside the Opec quota system and overall production ceiling.

Kuwait yesterday announced it would reduce output by 125,000 barrels a day, while Algeria, another Opec member, said it would reduce supply by 50,000 barrels. The United Arab Emirates, another big Gulf producer, is expected to cut back by 150,000 barrels a day. It is not known whether Iran, which has been struggling to meet its Opec quota because of technical problems and financial constraints, will also take part in the arrangement.

Non-Opec producers are thought to be ready to contribute between 300,000-500,000 barrels a day to the co-ordinated reduction. Industry observers yesterday said Norway, the world's second biggest oil exporter, might agree a reduction of 100,000 barrels a day.

The latest oil price decline was triggered last November, when Opec approved a 10 per cent production increase just as the extent of the Asian economic downturn became apparent. Low prices have wreaked havoc on dozens of oil producing countries, some of which are among the most politically volatile in the world. Opec revenues are thought to have been \$300m a day lower than this time last year.

Oil pact, Page 5
Lux, Page 16
Shell may defer projects, Page 17



Poster artist Emmanuel Barfour puts the finishing touches to a painting of Ghana's president Jerry Rawlings shaking hands with US president Bill Clinton. Mr Clinton will visit Accra, the Ghanaian capital, today at the start of his six-nation African tour in which he will 'reach out to his peers' and signal the US's approval of the 'new breed' of African leader. Leaders start to lose gloss, Page 5; Editorial Comment and Observer, Page 15. Picture Reuters

AT&T link with Telecom Italia close to collapse

Boardroom resignation threatens groups' original equity swap deal

By Paul Batts in Milan

AT&T's global alliance with Telecom Italia, Italy's privatised telecommunications group, is on the verge of collapse following the sudden resignation from the Italian company's board of Mark Baker, AT&T's representative.

Telecom Italia yesterday said negotiations were continuing with the US telecoms group, but the two companies appeared resigned that their original deal which included an equity swap, was now dead.

The companies say the global partnership, at best, will be only a regional alliance in the Latin American telecoms market.

The embarrassing disagreement arose after new management teams at both companies attempted to renegotiate the original deal.

AT&T and Telecom Italia signed their original memorandum of understanding last July. AT&T subsequently agreed with the Italian Treasury to acquire a 1.2 per cent stake for about

L700bn (\$890m) in the Italian group as part of its privatisation in October 1997.

In turn, Telecom Italia was to acquire a stake in AT&T worth the same amount.

Unisource, the European telecommunications consortium linked with AT&T, also agreed to acquire a 1.2 per cent stake in Telecom Italia. AT&T and Unisource were granted a seat each on the privatised Telecom Italia board.

However, some Italian officials were not happy that Telecom Italia would not be represented on the AT&T board.

The Treasury and the then management of Telecom Italia had emphasised the importance of forging a global alliance with a strong international partner in order to reinforce the Italian company in its new privatised structure.

After the successful flotation of Telecom Italia, which raised more than L20,000bn for the Treasury in what was described in Italy as "the mother of all privatisations", representatives from

both AT&T and Unisource joined the privatised company's board, although they had yet to finalise their global partnership with the Italian group.

AT&T and Telecom Italia were due to complete their original agreement at the end of December 1997.

This would have triggered AT&T's acquisition of a 1.2 per cent stake from the Treasury and Telecom Italia buying an equivalent dollar amount of AT&T shares.

Unisource is due to complete its share deal at the end of June. However, this transaction also appears at risk as it is connected with the AT&T agreement, even though Mr Pauline Smith, the Unisource representative on the Telecom Italia board, has so far not resigned from the Italian company.

Since Telecom Italia's privatisation, both the Italian company and AT&T have faced considerable internal management upheaval.

Bonn opens Emu door to high-debt nations

By Lionel Barber and Wolfgang Mißbach in York

Germany has given a decisive signal that it is ready to support the inclusion of high-debt countries, notably Italy, as founder-members of European economic and monetary union.

At a weekend meeting of European Union finance ministers in York, UK, Theo Waigel, German finance minister, unveiled a five-point plan to accelerate debt reduction and tighten budgetary discipline among the likely Emu-bloc countries.

The plan is intended to reassure a German public that remains nervous about giving up the D-Mark. However, a survey by the country's chambers of industry and trade, published today, suggested that 54 per cent of companies now believe the euro's introduction is both "probable and desirable". That compares with 39 per cent a year ago and only nine per cent in 1995.

Mr Waigel's plan also aims to ensure stability in the financial markets in the transition period between the selection of Emu members on May 2 and the launch of the euro on January 1 1999.

The European Commission and the European Monetary Institute in Frankfurt will release reports on Wednesday on the progress that the 15 EU member countries have made towards meeting the entry conditions for Emu.

The reports are expected to

show that 11 countries, including Italy, have met the criteria. Britain, Denmark and Sweden are staying out of the first Emu wave for political reasons, while Greece is still lagging on economic grounds.

Both the Commission and EMI reports will stress the need for sustainable "convergence" among Emu members to guarantee a stable and credible euro.

The stock of debt in Belgium and Italy, though declining, is twice the EU's official target of 60 per cent of gross domestic product. Germany's debt has also risen in recent years because of the cost of unification.

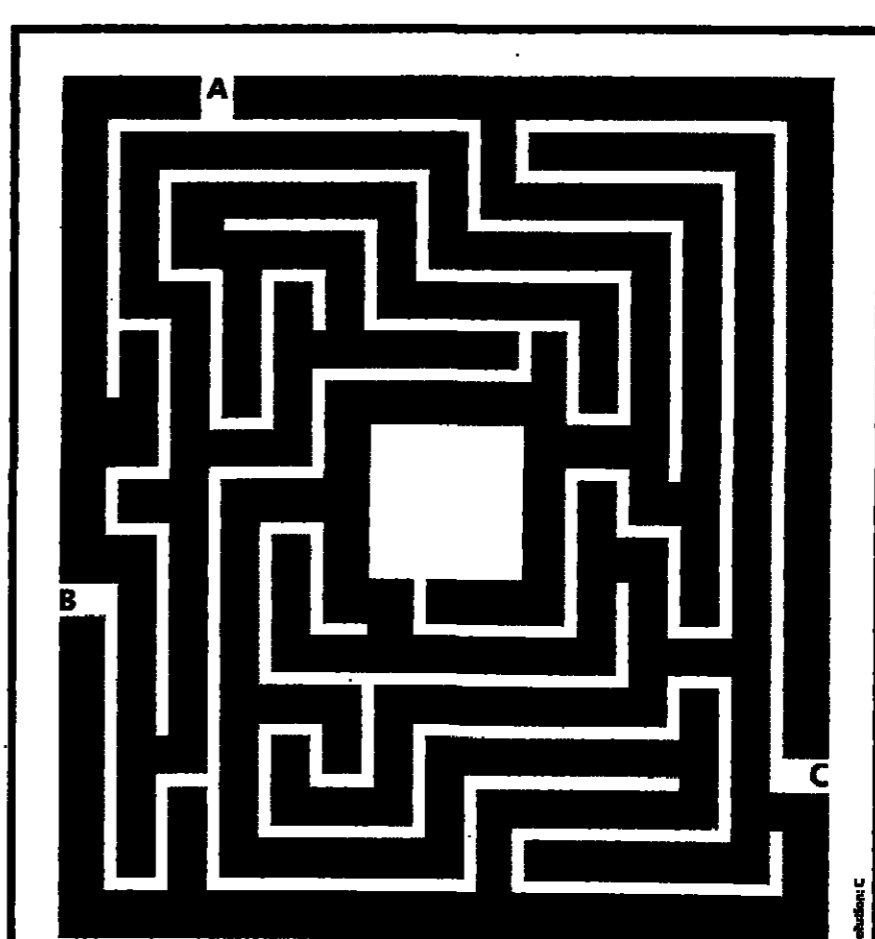
Mr Waigel's plan involves five steps:

- All countries to correct unexpected budgetary shortfalls in the current year and to use windfall surpluses for debt repayment.
- All euro zone countries to co-operate on their 1999 budgets as a matter of common concern.
- All countries to enforce the Stability Pact from May 2, seven months ahead of schedule.
- Accelerated debt reduction for all Emu-bloc members.
- Countries agree to reduce the amount of short-term borrowing as a proportion of total debt.

Mr Waigel added that Germany was opposed to any EU-wide fiscal transfers from wealthier to poorer areas to offset cyclical tensions in the single currency zone.

Warning to the euro, Page 2
Editorial Comment, Page 15

It's a Cinven challenge

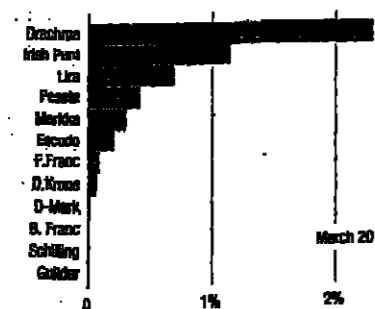


Which way do you want to go?

Cinven Capital choices

Cinven Limited is regulated by DMR

EMS: GRID



The chart shows the number of currencies in the EMS grid measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the goldfr which move in a 2.25 per cent band.

Currencies, Page 25

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Belgium	101.50	Belgium	101.50	Spain	163.26
Denmark	101.50	France	166.63	France	166.63
France	166.63	Germany	100.00	Germany	100.00
Germany	100.00	Italy	1936.26	Italy	1936.26
Italy	1936.26	UK	149.48	UK	149.48
UK	149.48	US	106.75	US	106.75
US	106.75	Canada	100.00	Canada	100.00
Canada	100.00	Sweden	100.00	Sweden	100.00
Sweden	100.00	Switzerland	100.00	Switzerland	100.00
Switzerland	100.00	Australia	100.00	Australia	100.00
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China	100.00	South Korea	100.00	South Korea	100.00
South Korea	100.00	Japan	100.00	Japan	100.00
Japan	100.00	China	100.00	China	100.00
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South Korea	100.00	Japan	100.00	Japan	100.00
Japan	100.00	China	100.00	China	100.00
China					

WORLD NEWS

EUROPE

EU bankers hit at IMF on bail-outs

By Wolfgang Münchau and Lionel Barber in York

European Union central bankers have attacked the bail-out practices of the International Monetary Fund and will be putting forward proposals next month that would involve commercial banks at an earlier stage.

The criticism reflects concern about the IMF's handling of the Asia financial crisis. It also signals the EU's intention to raise its profile in international financial institutions as 11 European countries prepare to adopt a single currency next January.

The US has dominated the policy agenda of the IMF, even though EU countries have a larger combined shareholding.

Hans Tietmeyer, president

of the Bundesbank, speaking after the informal meeting of EU economics and finance ministers at the weekend, said the multi-billion-dollar international rescue plans for Thailand, South Korea, Malaysia and Indonesia could encourage reckless bank lending.

"The IMF should re-evaluate its policies and should question itself on how far its policy generates moral hazard. The IMF should consider whether it is better to tackle problems with large sums of bail-out money or whether it might be better to involve private sector creditors at an earlier stage," he said.

Mr Tietmeyer said he had drawn up proposals which he would present to the IMF's interim committee at its next meeting on April 16 in Washington.

He did not divulge details of the programme, but a key element is believed to include regular monitoring of private sector debt.

At the meeting, EU central bankers also discussed the possible dangers of electronic money to monetary policy under Emu. Smart cards with computer chips are becoming increasingly popular, but central bankers are worried because this is a form of money that operates outside the control of central banks.

The bankers are particularly concerned that the transition period between the launch of monetary union in January and the introduction of euro notes and coins in 2002 could encourage the use of electronic money.

Mr Tietmeyer called on the European Commission to consider regulating the markets for electronic money and electronic banking, restricting its use only to established banks.

Denmark 'should shadow Emu'

By Tim Burt in Stockholm

Denmark should adopt an economic policy designed to shadow European economic and monetary union (Emu) without committing the country to membership of the single currency, according to a government document due to be published next week.

The 300-page report, drawn up by the Ministry of Economic Affairs and the Danish central bank, recom-

mends that Denmark should tailor its policies closely to those of euro-zone countries.

Publication of the report, due next Monday, could exacerbate anti-Emu sentiment among Eurosceptic members of the recently re-elected Social Democrat government.

The minority government told voters in the run-up to this month's election that Denmark would not participate in the single currency or abandon its opt-outs from

the Maastricht Treaty. But the report, Denmark Outside the Euro, says: "Our economic policy will be to behave as if we were a member with respect to economic policy, particularly with the development of inflation and financial markets."

Publication of the report follows a one-year study by the Danish government's Emu committee, comprising ministry and central bank officials working alongside representatives of business

and consumer groups.

In spite of its main conclusions, one of the report's leading contributors denied that it would compromise government attempts to secure a Yes vote in next month's referendum on the Amsterdam Treaty, involving closer political co-operation between EU countries.

It also reiterates Denmark should not join the single currency without holding a referendum on the issue - something not planned at

present. Nevertheless, the document confirms Denmark will become a member of ERM-2 - successor to the current exchange rate mechanism - next January. As such, the Danish krone will be pegged closely to the euro. One leading banker suggested at the weekend that the government might adopt an ERM band of no more than 0.5 per cent above or below the euro.

Emu survey, separate section

German companies warming to euro

By Ralph Atkins in Bonn

German companies are increasingly seeing the planned European single currency as a positive development which is likely to be introduced on time, according to a survey by the country's chambers of industry and trade, the DIHT, published today.

The percentage believing that the introduction of the euro from January 1 next

year is both "probable and desirable" has risen to 64 per cent. That compared with 39 per cent a year ago and just 9 per cent in 1995.

The survey of 25,000 companies points to swelling business support for the euro, despite strong public scepticism. However, the 'greatest enthusiasm remains with the larger companies. Less than half of companies, employing fewer than 20 say the introduction of the new

currency from next year is "desirable". Support is much stronger in western than in eastern Germany.

But the DIHT reported a low state of preparation by German business for the currency. It says the proportion of companies which have begun preparations has more than doubled from 21 per cent to 43 per cent since last year. "But the time ahead of the currency union has halved since then".

Nevertheless the DIHT said 65 per cent of companies planned to adapt accounting systems to the euro either at the start of currency union or before the introduction of euro notes and coins in 2002. It contrasted that with the decision of many public administrators to switch to the euro only after 2002.

The survey came as Kurt Biedenkopf, prime minister of the state of Saxony, hinted he might next month

oppose in the Bundestag, or federal second chamber representing states, the euro's introduction from next year. Repeating his call for an orderly delay, Mr Biedenkopf, a well known Eurosceptic in the Christian Democratic Union of Chancellor Helmut Kohl, said in a letter to the party's federal leadership that the conditions had not been fulfilled for lasting financial and budget stability under the euro.

Denktash plea to UN on EU talks

By David Buchanan and Kevin Hope in Nicosia

Rauf Denktaş, the Turkish Cypriot leader, is asking the United Nations Security Council to step into the Cyprus crisis and tell the Greek Cypriot government it cannot negotiate entry into the European Union until it first comes to a political settlement with him.

Kofi Annan, the UN secretary general, is due to meet Mr Denktaş in Geneva on Friday. But he is expected to warn the Turkish Cypriot leader that there is no chance of the Security Council - where Britain and France hold veto powers - dictating terms to the EU on how and when it chooses to expand its membership.

Mr Denktaş's latest move

reflects his increasing desperation to block the EU's accession negotiations with Cyprus, which are due to start formally on March 31. Mr Denktaş's self-proclaimed "Turkish Republic of Northern Cyprus" is not recognised by the UN or any of its members except Turkey. But he has already put his appeal to Diego Cordovez, the UN secretary general's special envoy on Cyprus, who has been in Nicosia vainly trying to persuade Mr Denktaş to return to inter-communal talks with the Greek Cypriots.

Mr Denktaş has recently warned he would return to UN-sponsored negotiations to end the 34-year-old partition of the island only "on a state-to-state basis" - meaning that his breakaway state

must first be recognised as the equal of the internationally accepted Greek Cypriot government. But, in an interview last Friday, he went further to "ask the Security Council to protect me" from the risk posed by the Greek Cypriots' bid to negotiate entry of the whole of Cyprus into the EU.

He said he would not resume the UN negotiations "until the Security Council acknowledges that the Greek Cypriots cannot speak for us" with the EU.

"People will say this is just Denktaş being negative, intransigent again," said the Turkish Cypriot leader, "but I am democratically elected and acting for my people." However, one Turkish Cypriot opposition leader criticised his stance.



Denktaş's desperation

weekend, Glafcos Clerides, the Greek Cypriot president, dismissed the possibility of Mr Denktaş's appeal succeeding. "The Security Council would not be able to intervene in EU matters - this is not within its jurisdiction." He reiterated that his government would not recognise Mr Denktaş's state.

At EU insistence, the Clerides government has offered to include Turkish Cypriots as full members of its negotiating team - an invitation that Mr Denktaş has turned down. Mr Clerides said he had told the EU to go ahead and brief the Turkish Cypriots on the progress of the accession negotiations, which are expected to take several years. Mr Denktaş rejected this idea.

Swiss are Europe's 'happiest workers'

By Robert Taylor, Employment Editor

Swiss and Danish workers are the most satisfied employees in Europe, followed by the Norwegians, Dutch and Austrians. The Irish are not far behind, alongside the Finns and Portuguese.

British and Italian workers are among the least satisfied after the Hungarians. Other more disgruntled workers are the French, the Spanish, the Czechs, the Belgians and the Germans.

These are the main findings in the latest annual survey of employee satisfaction in Europe carried out by IRI International Survey Research, the independent consulting company. The sample is made up of employee opinion surveys in a wide range of business organisations across Europe.

The Swiss, more than workers in any other European country, believe they are well paid, receive generous company benefits, derive satisfaction from their work and have safe working conditions. More than 70 per cent of them believe they work in efficient companies, produce high quality work, co-operate well with one another and identify strongly with their companies.

By contrast, Italian workers have a low regard for their immediate supervisors, the state of their physical working conditions, the quality of their work, their training and development chances. Feelings of job satisfaction and job security are lower among workers in the UK than in almost any other European country, and management is rated less favourably by employees.

The survey is available free from International Survey Research Ltd, Albany House, Petty France, London SW1R 9EE.

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NEWS DIGEST

SCHLESWIG-HOLSTEIN

Social Democrats make gains in local elections

Germany's opposition Social Democrats last night appeared to have made significant gains in local elections in Schleswig-Holstein, north Germany. First predictions after the polls closed pointed to a increase of about three percentage points in the party's vote from the 39.5 per cent won in 1994.

The city and local contests provided the latest test of voters' opinions ahead of September's federal elections. They followed the SPD's victory in Lower Saxony state elections on March 1, which secured the party's chancellor candidature for Gerhard Schröder, the state's prime minister.

However the SPD's apparent success in Schleswig-Holstein was marred by indications that the Green party vote may have slipped from 10.3 per cent last time to about 7 per cent. The Greens and the SPD form the state government in Schleswig-Holstein and the SPD's hopes of securing a change of power in Bonn could depend on being able to form a coalition with the Greens at the federal level.

Meanwhile, Chancellor Helmut Kohl's Christian Democratic Union appeared to have increased its vote slightly in yesterday's contests. Ralph Atkins, Bonn

MIDEAST PEACE

Israel snubs US proposal

Israel's cabinet yesterday rejected a reported US proposal to revive stalled peace talks. Newspapers said a US initiative called for an Israeli troop withdrawal from 13 per cent of the occupied West Bank.

In an attempt to head off US pressure on Israel, the cabinet said such a proposal would be "unacceptable" and insisted that "only Israel will determine its security needs". Palestinians want Israel to withdraw from 30 per cent of the West Bank, and say Israel is using security as an excuse to stall on the peace process.

Israeli newspapers said yesterday that Benjamin Netanyahu, prime minister, appealed to US President Bill Clinton not to publicise the US initiative. According to Israeli officials, Dennis Ross, US Middle East peace envoy, would arrive in the region at the weekend to try to revive the talks.

Meanwhile, Kofi Annan, UN secretary general, will arrive in Gaza today to meet Yasser Arafat, president of the Palestinian Authority. Avi Machlis, Jerusalem

BASQUE SEPARATISTS

Eta members held in Seville

Spain's security forces claimed a second big success against the Basque separatist organisation Eta over the weekend with the arrest of five of its members and the capture of weapons and nearly 600kg of explosives. The swoop on an Eta safe house in Seville took place 48 hours after 13 gunmen and their accomplices had been detained in a series of raids in the Basque country.

Police linked two men and a woman held in Seville with the murder in January of a city councillor and his wife that formed part of an Eta campaign against elected officials of the ruling Popular party. All three were said to have been involved in Eta attacks in Madrid and the Basque Country for several years and had moved to Seville to spread separatist violence to the south of Spain.

Two more men arrested on Saturday were identified as French nationals resident in the French Basque country, where Eta has traditionally maintained bases. Tom Burns, Madrid

NO-CONFIDENCE MOTION

Thai government survives

The Thai government of Chuan Leekpai survived a no-confidence vote in parliament over the weekend. The country's new constitution forbids the opposition from submitting another no-confidence motion for a year, which may allow several months of relative calm in Thailand's normally turbulent political waters.

Nevertheless, the 208-177 vote exposed the government's slim majority in parliament, one that could be difficult to maintain when a number of controversial measures, such as expanding foreign ownership in Thai companies and privatisation, come up for debate in the next parliamentary session scheduled for June. Some observers expect Mr Chuan to call a snap election as soon as new legislation covering election procedures are completed in the next few months. Ted Bardacke, Bangkok

OLYMPIC AIRWAYS

Strike threat at Greek airline

Unions at Olympic Airways, the struggling Greek state carrier, yesterday threatened to begin work stoppages from tomorrow in protest against a restructuring plan put forward by the Socialist government.

The airline's restructuring is part of a package of public sector reforms agreed with the European Union as the price of the drachme's entry last week to the Exchange Rate Mechanism. Greece is committed to modernising loss-making state enterprises over the next 18 months in its attempt to achieve membership of the single European currency by 2001.

The plan presented by Tassos Martelli, the transport minister, calls for a three-year wage freeze, longer working hours and closure of loss-making routes. Based on proposals made last year by McKinsey, the US consultancy, it aims at bringing Olympic's operations in line with other EU carriers.

Michalis Perros, head of the airline's federation of 17 separate unions, said the proposals would mean "conditions of slavery" for Olympic's workers.

The transport minister has warned that the airline may be shut down if no agreement is reached with the unions in negotiations due to start this week. The modernisation of Olympic is seen as the test case of the Socialists' new policy, but confrontations are also likely with workers at Hellenic Airways, another heavy loss-maker, and DEH, the state electricity utility. Kerin Hope, Athens

BASHKORTOSTAN

Russian republic raises \$45m

The autonomous Russian republic of Bashkortostan has raised \$45m on the international capital markets in a move that could encourage other Russian municipal borrowers back after their enforced absence due to Asia's financial crisis.

The loan, arranged by Moscow Narodny Bank and HSBC Markets, is the first foray into the international markets by Bashkortostan, a region about as large as France, 1,500km east of Moscow and with substantial oil reserves.

The republic produced 6 per cent of Russia's total oil output in 1995, according to Moscow Narodny Bank, and the loan is to be used for investment in its hydrocarbons and petrochemicals industry, which officials claimed was highly profitable.

Agreement on the two-year loan was signed in London on Friday by Rim Bakiev, prime minister, and executives of the banks. It was priced at 400 basis points over Libor, which analysts said was expensive but not surprising because the republic had no credit history.

Fitch IBCA, the international credit rating agency, rated the creditworthiness of BashCredit, Bashkortostan's state bank, last December at C/D, well below investment grade.

Almet Gaskarov, Bashkortostan's deputy finance minister, said that the country might seek up to \$500m in foreign borrowings in 1998 and that it was in talks with a number of western investment banks about launching an international bond issue by the end of the year. Vincent Boland, London

Milosevic pins hopes on Kosovo cause

The embattled Serbian leader is attempting to overcome his domestic problems by rallying his countrymen to an old battle cry, reports Guy Dinmore

By reviving the battle cry of Kosovo, Slobodan Milosevic, president of what is left of Yugoslavia, hopes to rally fellow Serbs in a rearguard action to shore up his waning powers.

The risks are great. A decade ago, Mr Milosevic, then a Communist party apparatchik, outmanoeuvred his rivals by fanning the flames of Serbian nationalism in Kosovo - at the cost of destroying former Yugoslavia. Analysts say that by returning to the scene of his former triumphs, Serbia's strongman may yet bring about his final undoing.

"Milosevic is trying to get stronger through Kosovo," says Stojan Cerovic, a political commentator. "Domestic factors played a large role in his decision to start another conflict."

The first serious setback to Mr Milosevic came a year ago when mass street protests forced him to recognise sweeping opposition victories in Serbia's local elections. Then, in September, his ruling Socialist party lost its parliamentary majority in Serbia and his ally was defeated by a pro-western reformist in Montenegro's presidential election.

This year saw the Serb half of Bosnia slip from his grasp with the appointment of a new moderate government. In Kosovo, birthplace of the first Serbian kingdom in medieval times and still revered for its ancient Orthodox monasteries, Mr Milosevic has rediscovered a ready cause for uniting a country lurching further to the nationalist right.

For most ordinary Serbs, whose priority is the daily struggle to survive, state television and radio are the only sources of information. The well oiled propaganda machine ensures that the official view prevails. Radmila Milentijevic, the Ser-

bian information minister, denies reports of summary executions and says the Albanian women and children who died were either used as "human shields" or were killed by the "terrorists" themselves.

This version of events finds ready acceptance on the streets of Belgrade. "I support Milosevic 1,000 per cent. Kosovo is our land, Serbian land. Underline that several times," said Vlasta Jelic, a 65-year-old concert violinist. "The Albanians killed their own people, just as the Moslems did in Bosnia so that the west would impose sanctions."

Grujica Spasovic was one of five editors of independent newspapers questioned by police for running the headline "dead terrorists", as the victims were officially described by the interior ministry.

Ogden Prilicic, a sociologist, believes a vast majority of Serbs see Kosovo as their Holy Land and support Mr Milosevic.

"The Serbs do not treat the Albanians as equal, they treat them as uncivilised, very primitive, dirty... as humans of a lower profile. Of course Milosevic is the person who opened the bottle and let the devil out but these feelings are much older than Milosevic."

But Kosovo is still regarded as far away and poverty-stricken. The prevailing sense of political apathy in Serbia means that while many tacitly support Mr Milosevic, and would probably endure further

sanctions by the west, few would be ready to go down there and fight.

Mr Milosevic, say Belgrade commentators, is treading a fine line. Too aggressive a policy in Kosovo and Yugoslavia's already crumbling economy will be further debilitated by additional western sanctions.

Mr Milosevic survived last year financially by selling 49 per cent of Telecom Serbia to Telecom Italia and OTE of Greece. Plans to sell more state assets may be jeopardised by a western ban on government credits and support for the privatisation programme, measures agreed by the five main western powers this month.

Deeper isolation for Yugoslavia could also backfire on Mr Milosevic in Montenegro. If the reformist party of President Milo Djukanovic does well in the republic's parliamentary elections in May it will increase its strength in the federal assembly and be able to block Mr Milosevic's plans to boost his constitutionally weak powers.

But if Mr Milosevic is forced to compromise by the west and accept a political solution in Kosovo that many Serbs would oppose, then more Serbian support will go to Vojislav Seselj, the arch-nationalist who came within a whisker of winning the presidential election last year.

"The response of Milosevic to liberalism is to ride nationalism," says Mr Cerovic, analyst for the independent magazine Vreme. "I'm not sure he will be so successful this time."

The elections appeared well

organised and disciplined despite the unorthodox circumstances. Albanians used Yugoslav identity cards to vote although they refuse to recognise the existence of the Belgrade government. Even state schools were used as polling stations with Albanian national flags hanging over voting booths.

Ethnic Albanians make up 90 per cent of Kosovo's 2m people and held their first elections in 1992, three years after Belgrade stripped the province of its broad autonomy. Ibrahim Rugova, president of the self-declared Republic of Kosovo, is the only candidate and the high turnout will give him a strong mandate to enter negotiations over Kosovo's future status with Belgrade.

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Ibrahim Rugova voting in Pristina yesterday. Picture Reuters

Albanians vote in 'illegal' poll

Ethnic Albanians in Serbia's southern province of Kosovo voted in large numbers for their own parliament and president yesterday, Guy Dinmore reports from Pristina. It was a defiant but peaceful message to the government in Belgrade following a police crackdown in which more than 80 people have been killed.

The Serbian government says the polls are illegal and refuses to recognise the results. Police have never allowed the Kosovo Albanian parliament to meet and the parallel government sits in exile in Bonn.

Serbs drove around the provincial capital, Pristina, in a convoy of cars, waving Serb flags and honking their horns. Sporadic gunfire could be heard in the city and police patrolled in force.

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EMERGING MARKETS CEO OF THE YEAR AWARDS.

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The second Award will go to a company with its headquarters in the developed world whose expansion into emerging markets has contributed significantly to corporate revenues and profitability and has benefited the countries involved.

The Awards will be presented at a special gala Awards Dinner during the IMF/World Bank annual meeting in Washington on October 5, 1998. If you would like to submit a candidate, please forward all contact details for your nominee and yourself by May 15, 1998 to Tom Lonardo, Managing Director, International Media Partners, on tel. +1.212.610.2924; fax +1.212.610.2901; email: tlonardo@emrgmkt.com.

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*President and Chief Executive
Nokia Corporation*

FRANCISCO
SANCHEZ-LOPEZ
*Chairman and
Chief Executive Officer
Panamerican Beverages*



ING BARINGS

THE AMERICAS

Scandal manoeuvre upsets Republicans

By Mark Suzman in Washington

US Republicans yesterday strongly criticised the White House decision to invoke a little-used constitutional privilege to prevent top aides from being questioned by prosecutors over the sex scandal allegations dogging President Bill Clinton.

Speaking on television, Trent Lott, Senate majority leader, warned that Mr Clinton's decision to claim executive privilege for Bruce Lindsey and Sidney Blumenthal, two presidential advisers, raised comparisons with Watergate and gave the impression the president was trying to hide something.

After weeks of vacillating in the hope of avoiding a constitutional showdown, the White House on Friday formally invoked the privilege to protect the two men from testifying about conversations they may have had with Mr Clinton

about the allegations.

The president's right to use the privilege, which is normally cited for issues of national security, is being challenged by Kenneth Starr, the independent counsel leading the investigation. A court ruling could come as early as this week, but an appeal could delay the investigation for months.

Mr Lott's comments are a sign of growing frustration in the Republican party at the success of Mr Clinton's stonewalling tactics over allegations that he had an affair with Monica Lewinsky, a former White House aide, and made unwanted sexual advances to Kathleen Willey, a volunteer worker.

Many had hoped that the new revelations about Ms Willey would turn the tide of public opinion against the president. However, while recent polls indicate that public disapproval of Mr Clinton as a person has risen

over the past week, overall approval of his presidency remains close to its highest levels.

Mr Clinton's political resilience is posing problems for the Republican leadership as it tries to decide how to handle Mr Starr's final report when it is eventually handed over to Congress. Many are reluctant to open impeachment hearings against a popular president for fear it will damage them in November's elections.

Newt Gingrich, House speaker, and Henry Hyde, chairman of the House Judiciary committee, which normally investigates such matters, have decided to send a small group of House members to scrutinise Mr Starr's evidence at an appropriate time, rather than proceeding with any formal congressional investigation.

File from Washington: Losses in primary colours, Page 10

Low-key Cuba welcome for lighter US sanctions

By Pascal Fletcher in Havana

A US move easing some sanctions against Cuba but maintaining the long US economic embargo against the communist-ruled island has been greeted cautiously by the Cuban government as "a drop of water in the desert".

Cuban state media reported without comment US President Bill Clinton's announcement on Friday that charter flights from the US to Havana would be resumed and Cuban exiles in the US would be allowed to resume sending cash to family members on the island.

But officials were quick to point out that the move, as presented by Madeleine Albright, secretary of state, did not remove or substantially alter the 36-year-old US embargo against Cuba nor the 1996 Helms-Burton law

which further tightened the economic squeeze.

Of Mrs Albright's assertion that the move fell within the US strategy of seeking a "peaceful transition to democracy" in Cuba, the Prensa Latina news agency said: "The White House continues blindly in its attempt to impose on Cuba changes which Cubans alone should decide."

Speaking in Geneva before Friday's announcement, Cuba's foreign minister, Roberto Robaina, said the US measure, details of which had already been leaked, looked like a "cosmetic operation" that did not "go to the heart of the problem". He said Cuba wanted to see a complete lifting of the US embargo.

Nevertheless, it appeared that Cuban leaders, though considering the US move

insufficient, did not want to dismiss it completely lest this discourage efforts in Congress to push through legislation which would ease the embargo by allowing humanitarian sales of food and medicine to Cuba.

In an early reaction as news of the latest US move was breaking, President Fidel Castro had commented that it seemed "positive".

As part of the measures, Washington said it would "streamline and expedite" the granting of licences for the sale of medicines to Cuba, which is already permitted under the embargo.

Mrs Albright said the administration would also seek bipartisan legislation to "meet humanitarian food needs on the island" as part of a strategy to "help the Cuban people without helping the government".

Washington rethinks Iran sanctions

By Mark Suzman

The US is being forced to rethink its plans to impose sanctions on foreign oil companies doing business in Iran as it seeks to shore up support in the Middle East and avoid alienating European allies and Russia, all of whom strongly oppose the move.

Analysts say that recent conciliatory overtures towards the US by Moham-

mad Khatami, Iran's president, and the risk of military action in the Gulf if Iraq violates the new UN agreement on arms inspections are also contributing to a more flexible US approach.

The change in attitude comes as the US continues to delay a formal announcement about whether the \$20m investment in Iranian gas announced last year by Total of France, Gazprom of Russia and Petronas of

Malaysia violates US law.

Under the terms of the 1996 Iran-Libya Sanctions Act, any foreign company which invests more than \$20m in Iran's energy sector is liable to US sanctions. Once the US government concludes that a company has violated the agreement it is required to decide within 90 days which, if any, punitive measures to invoke. The condition has become a headache for the US

administration, which is under pressure from the European Union not to impose sanctions on the Total deal. It has been investigating the issue for months and is now expected to wait at least until May before making a final decision. By doing so, the US hopes the UK, which holds the rotating presidency of the EU, will be able to persuade Brussels to toughen its own position on Iran.

"If the Europeans can take some measures themselves, even if they're mostly symbolic, it will make it easier for the US to back down," said an analyst.

Some US officials are hoping the deal will collapse anyway, particularly as Petronas is reported to be struggling to meet its obligations because of the Asian financial crisis. However, Total insists the project will go ahead.

Pentagon strategists cultivate defence ties with Indonesia

The Asian financial crisis has spurred efforts to head off a possible slide back towards regional strife, writes Bruce Clark

When Indonesia descended into economic tailspin, two agencies of the US government took the lead in co-ordinating an effective response to the crisis.

One was the Treasury, working both directly and through the International Monetary Fund and World Bank. The other, much less conspicuous but equally important, was the Pentagon.

While US economic policymakers view Asia's financial troubles as a serious threat to trade balances and growth, the defence community saw even darker consequences if Indonesia crumbled.

At worst, say US experts who are familiar with Pentagon thinking, the economic crisis could have presaged a slide back towards the strife that raged between and within the south-east Asian states a quarter-century ago.

This prospect has redoubled the interest of US strategists in consolidating bilateral defence links with Indonesia and most of its neighbours. This process was gathering pace well before the economic crisis started, said James Clad, a professor at Georgetown University, at a conference last week of the Overseas Development Council.

The US, working in close co-ordination with Australia,

has been steadily cultivating ties with the Indonesian military. Whenever the US has felt constrained by domestic lobbies concerned over human rights, Australia has "stepped in to fill the breach", according to Marvin Ott, a professor at the Pentagon-affiliated National Defence University.

At a time when the military stands out more clearly than ever as one of the few institutions holding Indonesia together, US officials are watching now in having periodic access to overseas facilities than permanent installations.

The last thing the Pentagon wants is Asian bases with local problems - it has had enough of that type of thing in the Philippines, says Prof Clad, one of several US experts on the region who argue that a security system built up over 30 years around the Association of South East Asian Nations (Asean) is under unprecedented strain.

Because of organisational overstretch, the age of its leaders and economic factors, the broader effort to enhance bilateral ties between the Pentagon and south-east Asian states has been in progress at least since last summer, when the US aircraft carrier Independence paid a landmark visit

accused of human rights abuses.

Such training "enhances rather than diminishes our ability to positively influence Indonesia's human rights policies and behaviour", said John Hamre, the deputy defence secretary, in a letter to Mr Evans.

Indonesia denied earlier this month it had been asked to provide a military base for US forces. But speculation in Jakarta has persisted - and, in any case, the Pentagon is more interested now in having periodic access to overseas facilities than permanent installations.

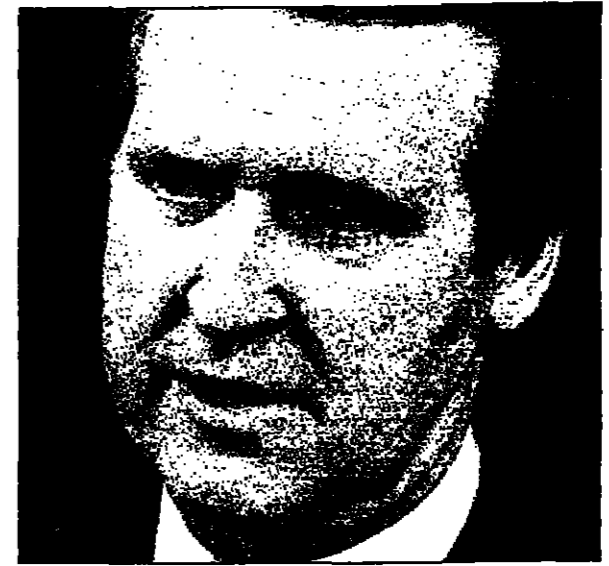
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Because of organisational overstretch, the age of its leaders and economic factors, the broader effort to enhance bilateral ties between the Pentagon and south-east Asian states has been in progress at least since last summer, when the US aircraft carrier Independence paid a landmark visit

to Malaysia. Anwar Ibrahim, Malaysia's deputy premier, is due in Washington soon for his second meeting this year with William Cohen, the US defence secretary.

Singapore announced earlier this year that it would allow the US Pacific Fleet to use a deep-water naval base now under construction. In January the US and the Philippines initiated a "visiting forces agreement", enabling the resumption of joint military exercises and US warship visits. Some regional experts predict that Thailand will soften its reluctance to allow the US military to station equipment on its territory.

Part of the background to all these moves, which have required a swallowing of regional and nationalist pride, is fear of increased tension in the South China Sea, where Beijing has



William Cohen: second meeting with Malaysian deputy PM

made, but not pressed, a broad assertion of territorial rights.

US strategists see Jakarta as the key factor. As long as the regional security system, of which Indonesia is the linchpin, remains intact, then "it will be very difficult for the Chinese to meddle if they are so inclined", says Paul Wolfowitz, an influential scholar and ex-ambassador to Jakarta.

If the south-east Asian system starts to come apart "then it will be very difficult for China to keep out", Mr Wolfowitz adds. But he does not believe that concern over Indonesia's strategic importance should imply pulling punches over its shortcomings in economic policy. "If economic mistakes are jeopardising the country's long-term health, we should be telling them so."

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ASIA-PACIFIC

JAPANESE ECONOMY ALTHOUGH FURTHER WEAKENING OF THE CURRENCY WOULD HAVE DIRE CONSEQUENCES, IT COULD BE DIFFICULT TO HALT THE SLIDE

Hard times take shine off once mighty yen

By Paul Abrahams in Tokyo

For years the yen was a one-way bet. Japan's economic strength, low inflation and strong productivity growth ensured the currency consistently appreciated. When in April 1995 it hit ¥79.75 to the US dollar there were commentators who believed it could reach ¥50.

Those days are long gone. The debate is now about how weak the yen can become. Last week the currency broke through ¥130 to the dollar for the first time since January, and some traders predict it could reach ¥150 this year. The implications are considerable.

The dangers of heightened trade friction with the US would be real. Only two years ago, explains Jeffrey Young, head of economic analysis at Salomon in

Tokyo, US authorities became apoplectic if Japan's current account surplus as a proportion of gross domestic product exceeded 2 per cent. If the yen were to reach ¥140, Japan's current account surplus, already at 2.6 per cent of GDP, could reach 3.25 per cent, he warns.

The impact of the yen's depreciation on other Asian economies could also be disastrous.

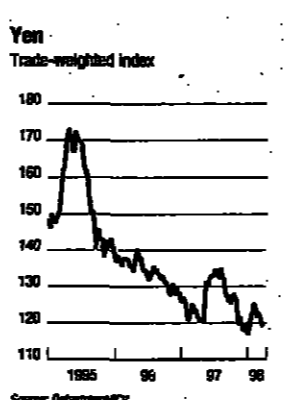
It would make Japanese products even cheaper in export markets where they compete with goods from other Asian countries. It would also make Asian goods more expensive in Japan. The country accounts for about 65 per cent of Asia's combined GDP and for most Asian nations is the most important export market. Asian countries are

already suffering from weak Japanese demand.

Although further weakening of the yen could have dire consequences, it could prove difficult for authorities in the US or Japan to halt the slide. There are strong macroeconomic forces driving the currency's decline.

Most important are the relative strengths of the US and Japanese economies. In recent weeks it has become apparent that Japan is slipping into a deep recession; GDP growth in the financial year ending this month is likely to be negative, the first year the economy will have contracted since 1974.

The Industrial Bank of Japan, admittedly one of the most pessimistic forecasters, predicts the economy this calendar year will also shrink. In contrast, the US continues its impressive,



steady growth with low inflation.

Economic pressures on the yen are reinforced by capital flows. Mr Young points out that interest rate differentials between Japan and the US are huge. Overnight rates in Japan are just 0.5 per

cent, against 5.5 per cent in the US. Even taking into account probable deflation in Japan, real interest rates are far higher in the US.

"Why buy yen, when you can buy dollars?" asks Ravi Bulchandani, global currency economist at Morgan Stanley.

Already, Japanese pension funds are big buyers of dollars and dollar-denominated investments. The liberalisation of foreign exchange rules next month as part of the Big Bang financial revolution will make it even easier for Japanese investors to buy assets overseas.

Eisuke Sakakibara, vice-minister at the Ministry of Finance - dubbed "Mr Yen" for his ability to move foreign exchange markets - has pledged to take decisive action to prop up the yen. But his ability to do so

seems limited given the macroeconomic context.

Without an increase in interest rates - an impossible policy change given the economy's weakness - even intervention in the foreign markets by the central banks of the Group of Seven leading industrial nations would be unlikely to have much long-term effect on the yen's value, argues Kenneth Landon, senior currency strategist at Deutsche Morgan Grenfell.

In any case, currency analysts question the political commitment to a strong yen. "Japan would be incapable of dealing with ¥110 to the dollar. The bond yield would fall to 1 per cent, and the economy would be condemned to low growth for many years."

As for Asia, he believes the region could cope with a weaker yen. He points out that the Bank of England's trade-weighted index for the yen does not take into account Asian currencies, which account for 35 per cent of Japanese exports. When their currencies are included, the yen has actually appreciated 15 per cent since January 1997.

He argues the damage caused by Asian currencies losing export orders in the short-term would be far less than that caused by a prolonged Japanese recession.

Currency analysts expect downward pressure on the yen to gain force next week after the government's latest economic package is announced. They are betting that the currency will fall heavily. The bet on depreciation is not one way, but the odds are in its favour.

Garuda tries to rearrange lease payments as air ticket sales fall

By Sander Thomas in Jakarta and Michael Stappeler in London

Garuda and several other Indonesian airlines, hit by a fall in ticket sales and a collapse of the rupiah, are trying to renegotiate lease payments and are handing back some aircraft, according to airline executives.

Sabur Taufik, project co-ordinator at Garuda, said the state-owned airline would start talks next week with at least five leasing companies on rescheduling lease payments, but he would not name them or the number of aircraft involved.

A banker involved in Asian aircraft finance said Garuda had missed several lease payments, although it had since made up some of them. He said he expected a round of tough bargaining with Indonesian carriers, with the airlines expected to claim they could finance only a fraction of their lease payments.

Bankers are expected to press for higher payments than those initially offered, in the knowledge that they can lease the aircraft elsewhere if the Indonesian airlines are forced to return them. Demand for aircraft from US and European airlines is at record levels.

Most state companies in Indonesia borrow without a sovereign guarantee, but the failures by some of the largest, such as the oil and gas monopoly Pertamina, to pay in full have highlighted the strain on Indonesia's economy from seven months of economic crisis. The 70 per cent depreciation of the rupiah has hit industries such as airlines, which pay leases, fuel and maintenance in dollars but sell most tickets in rupiah.

"Traffic is going down. We are forced to talk to the lenders of the aircraft," Mr Sabur said, "to have a lease cost that matches our revenues."

"We'll try to renegotiate with them, to have some hol-

iday," he said, adding that Garuda would propose paying only a percentage of the usual monthly fee, depending on the contract. "In the worst case we have to return the aircraft."

Garuda last year denied defaulting on loans but said it had rescheduled payments.

Bouraq, one of the smaller domestic airlines, said Fortis Aviation of the UK had agreed to accept only 25 per cent of monthly payments for two aircraft for the coming three months.

Jack Cunningham, Fortis chief executive, refused to confirm the 25 per cent figure, but said: "Our policy is to try to work with Bouraq. We consider it to be one of the best run private airlines in Indonesia." Bouraq obtained a freeze until July for three aircraft from Indigo of Sweden and it returned one leased from Transavia, the Dutch airline.

Sempati, a controversial domestic airline controlled

by a son of President Suharto, has already handed back seven aircraft to subsidiaries of Airbus and General Electric, one executive said. It owns five Boeing 737s, is considering putting four unused Fokker 27s back into service and has asked the government for a grace period on the two aircraft it leases from a state-owned company.

The executive said Sempati had rolled over commercial paper and was talking to state banks for an extension of soft loans as well. He denied widespread rumours that Sempati had never paid its fuel bills.

Selarto Hadisnanto, president of the Indonesian National Air Carriers' Association, said last month Sempati, Bouraq, DAS and Mandala, the four leading private airlines, were all in "serious danger" of collapse. He has been lobbying for a government subsidy, so far in vain.

Business Travel, Page 11

Chinese companies go on sale - for 12 cents

By James Kyng in Beijing

A city in China's northern industrial "rustbelt" has hit on a new way of solving the pressing national problem of restructuring insolvent state-owned enterprises.

As one of several "unprecedentedly favourable policies", the city of Shenyang in Liaoning province was scheduled to offer for sale at the weekend several state companies priced at just one yuan (about 12 cents) each.

Although insolvent state enterprises have been sold for nominal sums in the past, it is rare for authorities to organise and publicise mass auctions of state companies which, until recent years, were objects of official pride. A total of 50 troubled companies were due to be sold in Shenyang, the official Xinhua news agency said yesterday.

The reform of China's debt-ridden state-owned sector has been identified as one of the country's most

important and difficult economic tasks. Zhu Rongji, the new premier, last week said he was confident most loss-making companies could be turned around within three years.

His elevation to premier is expected to usher in a new phase of activism in economic reform. Mr Zhu chose a cabinet of technocrats last week and, in his first public remarks as premier, showed no sign of flinching from the sink-or-swim economic principle that has become China's new creed.

But of all Mr Zhu's endeavours, enterprise reform is perhaps the most perilous, as it creates redundancies and the potential for social unrest. In Shenyang, where a particularly outmoded Soviet-style state sector has driven authorities to pursue rapid reforms, about 20 per cent of the city's 1.3m unemployed are former state workers.

Mindful of such problems, authorities designed the

planned company sale in Shenyang with inducements for purchasers to keep production going.

For potential buyers, the prospect of taking on an insolvent enterprise which churns out products for which there is little market can be daunting. But some have been willing to take the risk.

Yang Mianmian, executive vice-president of the Haier Group, one of China's biggest manufacturers of white goods, said some of the companies were like "stunned fish - they look dead, but actually they can be revived".

Haier bought a defunct state electronics company in the province of Anhui and turned it into a viable factory complex making digital televisions. Most of the old workforce was kept on.

"It is mainly a question of new management techniques and having the capital to upgrade technology," Ms Yang said.

Banned dissident accuses Beijing

By John Riddling in Hong Kong

A prominent US-based Chinese dissident, who was refused entry to Hong Kong at the weekend, claimed the territory's immigration authorities had acted on instructions from Beijing.

Wang Binghang's claim was rejected by Hong Kong's security bureau, which said the decision was taken on the territory's own authority, that Beijing had not been consulted and that Mr Wang was refused entry because of a suspected forged travel document.

However, the case could lead to further questions about Hong Kong's autonomy under Chinese sovereignty. A number of recent incidents, including a decision not to prosecute a Chinese organisation in the territory, have raised concerns about autonomy.

Related concerns about the threats to the rule of law will be under scrutiny today when the secretary of justice appears before legislators to explain the territory's prosecution policy. That follows a case last week in which the Justice Department decided not to prosecute a prominent local publisher linked to a fraud case by the territory's Independent Commission Against Corruption.

The department said that there was no special treatment in the case and prosecution policy remained unchanged since before last July's return to Chinese sovereignty.

In the case of Mr Wang, Hong Kong officials said there was no threat to the "one country, two systems" formula which underpinned the handover and which promises autonomy to Hong Kong. Hong Kong's post-colonial constitution says the territory may still apply immigration controls on people from foreign states.

Mr Wang responded that he had not had any problems when he first entered Hong Kong last Monday using the same travel documents.

هكذا من الأصل

Oil pact gives industry breathing space

By Robert Corzine in London

As oil prices fell to nine-year lows over the past few weeks, the level of vitriol in the war of words between Saudi Arabia and Venezuela rose proportionately.

In Riyadh, officials made barely veiled references to Venezuela's chronic over-production, which is the highest within the Organisation of Petroleum Exporting Countries. Caracas counter-attacked by accusing Riyadh of resisting a more equitable share-out of the world's oil market.

With industry pundits predicting single-digit oil prices if the two countries continued their standoff, both sides vowed to be "the last to blink".

But such bravado could not disguise the financial pain that low prices were inflicting on them, as well as on the other producers, which watched the confrontation with growing concern.

"They all need a hospital, not a battlefield," noted Robert Mabro, director of the Oxford Centre for Energy Studies.

Yesterday's agreement between Saudi Arabia, Venezuela and Mexico marks a ceasefire in the struggle rather than a full-scale peace agreement.

But analysts say the decision by Saudi Arabia, the world's biggest oil producer and exporter, to match any combined cut by Venezuela and Mexico should put at least a temporary floor under oil prices. It should also act as a foundation and incentive for further cuts by both Opec and non-Opec countries.

That in turn should offer a breathing space to battered oil producers, which have faced such steep revenue falls as to cause analysts to raise questions about the political stability of some such as Iran and Nigeria.

The political significance of yesterday's deal is that "neither side blinked first", says Mr Mabro. The presence of Mexico in the deal is also significant. It is said to have played a critical role in bringing the two countries together and in helping them to overcome mutual suspicions.

Mexico should also make the deal more credible in the eyes of world oil markets. The three countries each have a similar share of the US market, the world's biggest, and, with the turmoil in Asia, the only one of any significance still offering growth opportunities. The deal means none of the three should secure a big advantage over the others while the nine-month agreement is in force.

The presence of Mexico and other big non-Opec producers in a global cut should also help overcome market scepticism about Opec's adherence to such a scheme.

In public, officials talk about a global reduction of as much as 2m barrels a day. A more realistic figure is probably around 1.2m b/d. That may not lead to the early erosion of the global surplus of oil supplies.

But it could easily be enough to swing short-term market sentiment and underpin prices while producers wait for the answers to the four big questions that hang over oil markets.

These are: What will be the long-term effect on demand of Asia's economic turmoil? How much more Iraqi oil will enter the market as a result of the expanded United Nations oil-for-food programme? What is the actual level of stocks in storage? And how long a shadow will they cast over oil prices?

Backers of the global cut want to attract as many participants as possible to ensure that no one country has to carry a disproportionate share of the reduction. That should also ensure that the deal does not collapse if countries fail to honour their commitments, something which could easily happen if short-term prices rise sharply.

But the relief with which oil-producing countries and companies will greet yesterday's deal is likely to be tempered by the reality that it may be only the first of several reductions that may need to be taken this year to stabilise oil markets over the longer term.

Africa's new leaders start to lose gloss

As Clinton flies into Entebbe, notes of scepticism are creeping into glowing assessments of the latest generation of rulers. **Michela Wrong** and **Michael Holman** report

Yoweri Museveni once described himself as a fat, balding man with a silly hat. But such self-deprecation, rare among African leaders, does little to obscure the fact that when President Bill Clinton flies into Entebbe tomorrow he will be greeted by the most influential sub-Saharan head of state after Nelson Mandela.

And as Mr Clinton "reaches out to his peers" the US will signal its approval of both the Ugandan president and the "new breed" of African leader he represents in the eyes of western administrations searching for signs of hope on a continent tainted by despair.

Ever since the 1997 toppling of Zaire's Mobutu Sese Seko, by rebels backed by Rwanda and Uganda, the tendency has been to view African politics in terms of a key "Band of Five": Mr Museveni, Ethiopia's Meles Zenawi, Eritrea's Isaias Afewerki, Rwanda's Paul Kagame and, to a lesser extent, Democratic Congo's Laurent Kabila.

This "new breed" of men shared their relative youth, the means used to seize

power, their intellectual arrogance and their contempt for Africa's colonial heritage. It was felt they were setting a fresh agenda that left an older generation of autocrats lagging behind.

Trumpeting the battle against corruption, they had ditched Marxism in favour of structural adjustment while bluntly telling Bretton Woods lending institutions they themselves must dictate the pace of development. Their self-confidence convinced many these were governments the west could finally "do business with".

In this group, most of whose members will be attending a mini-summit staged in Mr Clinton's honour, Mr Museveni holds pride of place. No-one has shown more ideological adaptability or more skill at wooing donors, and no-one has proved more far-reaching in his influence.

The forces that overran Rwanda in 1994 were led by men who had held top positions in his army. Three years later, Mr Kabila not only ousted Mobutu with help from Ugandan troops. He also regularly sought advice from Mr Museveni.

The string-pulling continues. Regional analysts are now braced for a big assault on Sudan's Islamic government by rebels in which Mr Museveni and his Eritrean and Ethiopian allies are expected to play their usual covert roles, blessed by a Washington anxious to see the fundamentalist threat eliminated.

But amid all the bonding that can be expected in Kampala, the first sounds of scepticism are being heard.

Increasingly, human rights activists and analysts question whether the "new breed" are as mould-breaking as supporters profess, or whether, in describing a country such as Uganda as "a beacon of hope", as Madeleine Albright, secretary of state, did recently, the US is being dangerously naïve.

"What's striking is the generational difference in Washington between those old enough to remember the initial enthusiasm towards the first post-independence leaders and a young group who never experienced that," says Alison Destorges, of Human Rights Watch.

"The older folks are saying 'Let's not get carried away, we've seen it all before', while the younger ones are so pleased to see some sort of initiative-taking."

One reason for the wariness is the deteriorating human rights records. While attention has focused on the massacres of Hutu refugees in east Zaire by Mr Kabila's forces, most of those killings were probably carried out by Rwandan soldiers, operating across the border.

As for Mr Kabila, his treatment of the opposition is becoming more reminiscent of his predecessor's by the day. In Ethiopia, the government's repression of secession movements has involved the detention of thousands. And while there are signs of a shift in Uganda, until recently Mr Museveni was committed to his "no-party" system.

At the same time, the new leaders' economic recoveries, impressive when departing from rock-bottom, are beginning to look less miraculous.

In Uganda, growth rates have gone from a regular 7 to 5 per cent as infrastructural limitations and bloating graft take their toll.



Bonding in Uganda: Museveni (right) meets Kabila at Entebbe airport. Picture AP

In Ethiopia, the donors are increasingly exasperated by resistance to change.

Leaders' defiant protestations that Africa must "own" its own recovery programme look hollow, given the massive amounts of assistance their countries - except Eritrea - continue to need.

But the biggest danger of over-enthusiastic western support, many analysts believe, lies in the pan-Africanism embraced by the new breed.

That belief underpins Mr Museveni's decentralisation campaign and Mr Meles's federal constitution. It also explains the readiness with

which the new breed have redrawn frontiers, sent forces into adjacent countries and helped topple neighbouring leaders.

Recent history - in particular, the peace dividend that has failed to materialise in the Great Lakes region following Mobutu's overthrow - has shown the risks posed by such rash foreign adventures. The consequences of a similar upheaval in Sudan can only be imagined.

There will be one way to tell whether the new leaders are the old, power-hungry breed in a new coating. "The test will be to see whether in 10 years' time, they're still

on the scene," says a diplomat. "If they haven't bowed out, we'll know it is the same old story."

So far the signs of early departure are few. In Rwanda, the Rwanda Patriotic Front is busy extending roots into the judiciary and business. In Ethiopia and Eritrea, the ruling parties are so dominant, opposition is irrelevant. And Mr Museveni, who once said a decade in power was enough for any leader, has now been at the wheel for 12 years and shows no signs of leaving.

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Contrast in global telecoms access

By Frances Williams in Geneva

Vast differences in access to basic telecommunications services persist but universal access can be achieved with new technologies and suitable policies, the International Telecommunication Union says in a report published today.

The report, which coincides with the opening of an ITU conference on telecoms development in Valletta, Malta, notes that two-thirds of the world's 1.5m households have no telephone. Over 60 per cent of main telephone lines are found in just 23 developed countries accounting for less than 15 per cent of the world's population.

Teledensity - the number of main lines per 100 inhabitants - ranges from less than 0.1 in Cambodia to 99 in Monaco, the report says. Nearly 800m people live in the 43 countries with teledensities below 1, the minimum necessary to give most people some sort of access to a telephone.

Once a teledensity of 1 is achieved, it has historically taken 60 years on average to reach a teledensity of 50, reflecting high telecoms development, though some countries have managed it in 20 years.

As density increases, the pace of change accelerates, which has had the effect of increasing inequalities between countries, the ITU says. Thus 84 per cent of mobile telephone subscribers, 91 per cent of fax machines and 97 per cent of internet host computers are in developed nations.

So far cellular telephony has been too expensive to have had much impact in enhancing access to telephones in developing countries where land lines are expensive and unprofitable to lay. However, the ITU believes the development of relatively cheap fixed cellular services offering basic facilities has the potential to cut significantly the costs (and user charges) of providing telephone networks.

The report defines "modest goals" for developing countries by 2010 of 10 telephone lines per 100 inhabitants, equivalent to at least half of all households. For the poorest countries, the ITU proposes a teledensity of 5 with a fifth of households covered.

Though the traditional practice of cross-subsidising the provision of telephones to poorer users is threatened by telecoms liberalisation, the report cites successful alternatives, including the setting of network targets for private operators in Argentina, contracting out network development in Thailand, the introduction of competition in the Philippines and private telecentres in Senegal.

*World Telecommunication Development Report, available from ITU sales service, CH-1211 Geneva 20, fax +41 22 730 5194 or website <http://www.itu.int/indicators>. SFY100.

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RADIO DEAL GIVES WORLD SERVICE NEWS ACCESS TO THE CAPITAL CITY AND 44 OTHER URBAN CENTRES

BBC wins breakthrough in Mexico

By John Gapper, in London

The BBC has made a significant advance in the Latin American radio market by reaching an agreement with Inforad, an independent radio production company, to broadcast BBC World Service news to a potential audience of 33m in Mexico City.

The deal, which is the largest the World Service has made in Latin America is part of its effort to raise

the audience for its Spanish and Portuguese service. It reaches 3.2m people in Latin America, compared with 2m in 1996.

The agreement, which is to be announced today, follows the signing of a deal last week between the BBC and Discovery Communications, the US cable network company, to create joint venture television channels internationally.

John Birt, the BBC's director general, is keen to make the BBC a leading global

news broadcaster, in competition with rivals such as Cable News Network, the US broadcaster that had both a television and a radio service internationally.

The BBC has found some difficulty until now in penetrating Mexico, which is seen as a key Latin American media market. The Inforad deal will mean World Service news is carried regularly in 44 urban centres as well as Mexico City.

The most important car-

rier will be the Monitor programme broadcast on Radio Red FM in Mexico City. This has an audience of about 250,000 people including many opinion formers.

The financial terms of the deal are not being disclosed, but the BBC will be paid a monthly fee based on numbers of listeners. Some 380 radio stations in the Americas carry World Service news.

The deal is part of a BBC strategy of attempting to spread its audience from its

core short-wave radio service. It does so by offering segments of programming - often its international news service - to local FM and AM radio stations.

Jerry Timmins, head of the Americas for BBC World Service, said the World Service was recouping 10 per cent of total costs in the Americas through such ventures. He said the BBC was the only publicly-funded radio group able to charge in this way.

Negotiations have also

begun in Brazil on a co-production deal with a local media group. BBC World Service news is carried by local public radio stations in the US to an audience of 3.7m, which has risen by about 1m in two years.

Under the BBC-Discovery deal, which will bring investment of at least \$585m (\$360m) over four years, the two groups are to launch a series of television channels internationally. They have already produced two for the Latin American market.

Blair in challenge to French socialists

By Robert Peston in London

Tony Blair, the British prime minister, will tomorrow use a wide-ranging speech to the National Assembly in Paris to challenge France's governing socialists to join him in rejecting traditional left-of-centre policies.

It is likely to be seen as implicitly critical of the French government's commitment to a 35-hour working week, and may reignite French socialist party concerns that Mr Blair is trying to undermine their basic values.

However, the UK prime minister, delivering his address to the legislature in French, will stress that there are strong similarities between his welfare-to-work policies - aimed at helping the young unemployed - and those of Lionel Jospin, the French premier.

The address comes only weeks after French government members reacted with alarm to Mr Blair's suggestion that a new international forum of modernising centrist and centre-left parties should be set up.

He will also spell out what he perceives to be the limits to future integration of Euro-



Tony Blair keen to stress 'constructive, positive side' of the EU

pean Union members, stressing that welfare, taxation and health must remain the exclusive preserve of national governments.

He will stress the "constructive positive side" to the EU and that he values "co-operation over foreign policy and defence," said his spokesman. However, Mr Blair will make clear he is not in favour of a United States of Europe.

This follows yesterday's implicit criticism of the UK's decision to remain outside European monetary union for the time being, which was made by Dominique

Strauss-Kahn, the French finance minister.

"In my opinion the only way to be a leading country in Europe is to belong to the euro zone," said Mr Strauss-Kahn in a BBC interview. "The influence of Britain in Europe will be smaller than it could be."

Mr Blair's trip to France comes at a delicate time for Anglo-French relations, following tension over the UK's relatively aggressive approach to Iraq because of Baghdad's refusal to allow unrestricted access to United Nations' weapons inspectors.

Lloyd's may seek fuller disclosure of broker fees

By Christopher Adams, Insurance Correspondent

The Lloyd's of London insurance market may demand that insurance brokers conducting business at the market provide greater disclosure about how they are remunerated.

It is considering tightening codes of conduct in response to concerns that current business practices may be detrimental to clients.

Commercial insurance brokers typically agree a fee with a customer or take a commission that comprises a percentage of the underwriter's premium for any service or advice they provide. But some underwriters also willingly pay brokers extra incentives or rewards for a steady flow of business.

However, the incentives are viewed by many clients - companies which buy insurance - as a potential conflict of interest for the brokers concerned. David Gittings, director of regulation at Lloyd's, said underwriters had begun expressing concern that some brokers were now exerting pressure for additional sums of money in exchange for access to business.

Brokers act as go-betweens in the market, representing companies that buy insurance in dealing with under-

writers. Underwriters insure risks and earn a premium for doing so.

"We are concerned that brokers could become the agents of underwriters," said Mr Gittings. "We're going to remind them of their existing obligations to clients."

Under Lloyd's rules, brokers must disclose remuneration from a transaction in full to a client, but only if requested to do so by the customer. "We may change that," said Mr Gittings.

The Association of Insurance and Risk Managers, which represents commercial insurance buyers, yesterday called for greater transparency in the London insurance market. A risk manager at one of Britain's FTSE-100 companies said that brokers' remuneration was "a grey area."

In a sign that client concern has begun to have an effect, Jardine Lloyd Thompson, a leading commercial broker, is thought to be considering whether to disclose publicly how much the incentives paid by underwriters contribute to its revenue. Airmic said it would welcome such a move and plans to survey its members on the issue.

Sedgwick, another broking group, rejected suggestions of a conflict of interest or that remuneration was not transparent. It said it openly acknowledged the receipt of incentives from underwriters in a statement of principles provided to clients. "We are the client's legal agent and act fully in his interest," Sedgwick said.

bank, which weekend press reports suggested had been approached to represent a possible buyer.

Equitas has appointed Hugh Stevenson, chairman of Mercury Asset Management, as chairman designate. Mr Stevenson will become a non-executive director at Equitas at the beginning of April and chairman in November, replacing David Newbigging.

NEWS DIGEST

NORTHERN IRELAND

Pro-British party signals 'historic' settlement near

A big boost to the Northern Ireland peace process came this weekend when David Trimble, leader of the Ulster Unionist party, offered the strongest hint yet that a historic settlement may be within reach. The Ulster Unionists are the largest pro-British party in Northern Ireland.

With three weeks left until the Easter deadline for reaching a settlement, set by the British and Irish governments, Mr Trimble told his party's annual convention: "We may be on the point of doing something that we haven't done in the last 25 years." Against a background of continuing violence by extremists on both sides who are opposed to a deal, Mr Trimble said unionists "must be prepared for what may come out of the talks over the next few weeks... This epoch-making opportunity is there. It can be achieved." John Murray Brown, Dublin

FILM INDUSTRY

Government may open LA office

The UK government plans to capitalise on the US's current interest in British films by opening an office in Los Angeles. Chris Smith, chief culture minister, announced the move in advance of a report due on Wednesday from the Film Review Policy Group, a body made up of representatives from the UK film industry. The report is expected to recommend opening a Los Angeles office. "It sends a big message to Hollywood that we are not a quiet film suburb, but a big block on High Street, Tinseltown," said Mr Smith yesterday. The office will aim to capitalise on the popularity and box office success of UK films such as *The Full Monty*, *Bean* and *Four Weddings and a Funeral*, to attract US funding for further productions. Maggie Urry, London

AGRICULTURE

College to aid Romania reform

Wye College in south-east England, one of the UK's leading agricultural colleges, has won a £1.2m contract to run a year-long project helping to reform Romanian agricultural policy and prepare the country for entry to the European Union. The project will involve briefing Romanian policymakers on how the Common Agricultural Policy works and training Romanian agriculture ministry officials. Wye has already worked on similar projects for Poland and Bulgaria. Maggie Urry, London

TRADE UNIONS

Recognition drive stepped up

The Trades Union Congress is stepping up its campaign this week for strong union recognition laws. Union leaders fear that Tony Blair, the prime minister, is sympathetic to the feelings of business organisations that oppose any recognition measures they fear would threaten a return of union disruption. John Monks, TUC general secretary, will address a meeting tomorrow in support of workers who claim they were dismissed by Critchley Label Technology, South Wales, when they went on strike after the company deregistered their union. TUC support for such a local action reflects growing concern among union leaders about the prime minister's reluctance to support their call for strong recognition laws. Robert Taylor, London

It's pure Scandinavian

FLIGHT	DEPART	ARRIVAL	FLIGHT	DEPART	ARRIVAL
SK500	08:30	COPENHAGEN	SK501	19:00	COPENHAGEN
SK502	09:00	STOCKHOLM	SK503	19:30	STOCKHOLM
SK504	09:30	OSLO	SK505	20:00	OSLO
SK506	10:00	STAVANGER	SK507	20:30	STAVANGER
SK508	10:30	COPENHAGEN	SK509	21:00	COPENHAGEN
SK510	11:00	COPENHAGEN	SK511	21:30	COPENHAGEN
SK512	11:30	COPENHAGEN	SK513	22:00	COPENHAGEN
SK514	12:00	COPENHAGEN	SK515	22:30	COPENHAGEN
SK516	12:30	COPENHAGEN	SK517	23:00	COPENHAGEN
SK518	13:00	COPENHAGEN	SK519	23:30	COPENHAGEN
SK520	13:30	COPENHAGEN	SK521	24:00	COPENHAGEN
SK522	14:00	COPENHAGEN	SK523	24:30	COPENHAGEN
SK524	14:30	COPENHAGEN	SK525	25:00	COPENHAGEN
SK526	15:00	COPENHAGEN	SK527	25:30	COPENHAGEN
SK528	15:30	COPENHAGEN	SK529	26:00	COPENHAGEN
SK530	16:00	COPENHAGEN	SK531	26:30	COPENHAGEN
SK532	16:30	COPENHAGEN	SK533	27:00	COPENHAGEN
SK534	17:00	COPENHAGEN	SK535	27:30	COPENHAGEN
SK536	17:30	COPENHAGEN	SK537	28:00	COPENHAGEN
SK538	18:00	COPENHAGEN	SK539	28:30	COPENHAGEN
SK540	18:30	COPENHAGEN	SK541	29:00	COPENHAGEN
SK542	19:00	COPENHAGEN	SK543	29:30	COPENHAGEN
SK544	19:30	COPENHAGEN	SK545	30:00	COPENHAGEN
SK546	20:00	COPENHAGEN	SK547	30:30	COPENHAGEN
SK548	20:30	COPENHAGEN	SK549	31:00	COPENHAGEN
SK550	21:00	COPENHAGEN	SK551	31:30	COPENHAGEN
SK552	21:30	COPENHAGEN	SK553	32:00	COPENHAGEN
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SK564	24:30	COPENHAGEN	SK565	35:00	COPENHAGEN
SK566	25:00	COPENHAGEN	SK567	35:30	COPENHAGEN
SK568	25:30	COPENHAGEN	SK569	36:00	COPENHAGEN
SK570	26:00	COPENHAGEN	SK571	36:30	COPENHAGEN
SK572	26:30	COPENHAGEN	SK573	37:00	COPENHAGEN
SK574	27:00	COPENHAGEN	SK575	37:30	COPENHAGEN
SK576	27:30	COPENHAGEN	SK577	38:00	COPENHAGEN
SK578	28:00	COPENHAGEN	SK579	38:30	COPENHAGEN
SK580	28:30	COPENHAGEN	SK581	39:00	COPENHAGEN
SK582	29:00	COPENHAGEN	SK583	39:30	COPENHAGEN
SK584	29:30	COPENHAGEN	SK585	40:00	COPENHAGEN
SK586	30:00	COPENHAGEN	SK587	40:30	COPENHAGEN
SK588	30:30	COPENHAGEN	SK589	41:00	COPENHAGEN
SK590	31:00	COPENHAGEN	SK591	41:30	COPENHAGEN
SK592	31:30	COPENHAGEN	SK593	42:00	COPENHAGEN
SK594	32:00	COPENHAGEN	SK595	42:30	COPENHAGEN
SK596	32:30	COPENHAGEN	SK597	43:00	COPENHAGEN
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SK600	33:30	COPENHAGEN	SK601	44:00	COPENHAGEN

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INSIDE TRACK

PROFILE JOHANN RUPERT, REMBRANDT CHAIRMAN

Behind the smokescreen

Tony Jackson and Victor Mallet talk to the South African whose empire embraces Rothmans cigarettes, Cartier watches and Montblanc pens

Rising in a haze of tobacco smoke, Johann Rupert shows his visitors to their seats. As maker of Rothmans, Dunhill and Stuyvesant cigarettes, he evidently believes in the product. And as son of the founder and head of the family firm, he is not about to apologise for lighting up.

For a man of evident means, he has a modest base of operations: a drab modern building in Stellenbosch, an otherwise pretty town set among the vineyards of South Africa's Western Cape. But his empire is global; besides ranking among the world's half dozen biggest cigarette makers, it takes in such upmarket trinkets as Cartier watches and Montblanc pens.

It is also, in true South African fashion, a structural nightmare. It consists mainly of two companies, Rembrandt in South Africa and Richemont in Switzerland.

Rembrandt, South Africa's biggest company by asset value, is controlled through a pyramid structure, with three holding companies piled on top of it. The empire is wildly diverse, taking in gold mines, banks, mobile phones, pay TV and a great deal more.

Mr Rupert is not about to apologise for that either. Bear in mind, he says, the peculiar conditions facing South African business in the apartheid years.

First, there was a rigid system of exchange controls, so cash generated in South Africa was bottled up there. Second, the economic incompetence of the old Nationalist government ensured there was no point in leaving money in the bank.

"From the mid-70s, with erroneous fiscal and monetary policies, we suffered years of negative real interest rates," Mr Rupert recalls. "That was combined with double taxation of dividends, and very high rates of personal tax. So the only way companies could serve their shareholders was by acquiring

companies and managing them better."

Granted, he says, the company went into some odd areas as a result, and not all the investments were successful. "But we couldn't grow in cigarettes here; we already had 80-70 per cent of the market. We certainly accept that we are too widely diversified. But I think a lot will change when foreign exchange controls are lifted."

What about the pyramid structure of his empire? In the US or UK, the practice of controlling companies through minority stakes is nowadays frowned upon: especially if, as in Rembrandt's case, it is but-

'A lot of the criticism about monopolies is self-serving. It's not that difficult to enter the South African market if you have staying power'

tressed by multiple-voting shares.

Mr Rupert shrugs this off: "When my father started the company, the then-controlling shareholders gave him a couple of weeks to find other shareholders, because they didn't believe he was going to make it. The only way in which he could was to form pyramids."

But why is control still so important? "Simple. I'd much rather go and play golf than work for somebody else. I'd rather live on my farm. My father would not have worked all of his life if he hadn't had control over the company, and neither would I."

"None of my male antecedents has ever worked for the government in South Africa, or for somebody else. We've been poor. My grandfather suffered hard times, but he would not work for the state," he says.

Another criticism levelled at Rembrandt, as at other big South African conglomerates, is that of monopoly. Mr Rupert's estimate of a 70 per cent share of the mar-

ket is perhaps too modest; others would put it at 85 per cent. And it is notable that Philip Morris, the world's biggest cigarette maker with its Marlboro brand, is not in South Africa at all.

"A lot of the criticism about monopolies is self-serving," he replies. "It's not that difficult to enter the South African market if you have staying power. Two or three years ago, Philip Morris's unutilised borrowing capacity was more than South Africa's total foreign debt. Does someone want to tell me potential foreign investors are precluded?"

One foreign investor who seems to think so is Tony O'Reilly, head of the US food

group Heinz. In his personal capacity, Mr O'Reilly owns several South African newspapers. But has he not complained publicly about the difficulty of getting into the food market?

"Oh, give me a break. Tony made noises, but he's street smart. He's a good friend, and he's just been my guest here for three days," says Mr Rupert. "But what Mandy Rice Davies said is very true: he would say that, wouldn't he?"

At this point, the conversation switches to politics. Mr Rupert is a very prominent Afrikaner businessman, and in Stellenbosch, he is deep in the heart of Afrikaner territory. There is one obvious question: what does Mr Rupert think of the black-dominated ANC government that came into power in 1994?

"Friendlier than the previous group, and certainly more competent," he replies promptly. "I know a lot of my business colleagues complain about access.

I've never had a problem. And they take note of concerns. Their predecessors never did."

Besides, he says, they run the economy better. "They're fiscally far more prudent than their predecessors. The central government has been really exemplary in cutting expenditure."

What about the one topic that raises the hackles of white South African business - the government's labour laws, particularly the proposed mandatory quotas for black employees? His answer is more cautious, and slightly indirect.

First, he agrees with the government's argument that the political liberation of 1994 was only the first step; the next step must be economic liberation. But as a professed admirer of Margaret Thatcher, the former UK prime minister, he is unbending in his hostility to one of the most powerful forces in black South Africa, the trade unions.

The real problem, he says, concerns the huge proportion of the black population who are out of work. "I don't believe in the so-called golden triangle of government, business and the unions. Who looks after the unemployed?"

"We don't, because we're there to create wealth for society. The government, being in bed with the trade unions, have their hands tied behind their backs. The trade unions, representing a maximum of 1.8m people, are certainly not representing the unemployed."

Take a simple example, he says. "Suppose you put an ad out for 100 people. There are 2,000 people lining the streets, and you employ them. A month later the unions come in, and two months later there is a strike."

"Those people are perfectly happy to work at R2,000 a month. At that price, you can compete against Asian imports. At R2,000 a month it's marginal. At R2,500 you don't have a business. This is not hypothetical. It happened to a friend of mine in Cape Town. It's going to take time, but people are going to have to understand that unions destroy jobs."



ESSENTIAL GUIDE TO JOHANN RUPERT

Born into business, he inherited control of the Rembrandt conglomerate from his father Anton, who started a dry-cleaning business in 1941, moved into liquor and tobacco, and went on to build a global cigarette, luxury goods and media group.

There is no embarrassment about the dynasty. A large painting of Anton with Johann's son - also Anton - dominates Johann's office in Stellenbosch. It was in this Afrikaans-speaking town in the western Cape that Johann Rupert was born in 1950.

Johann proved as astute and competitive as his statesmanlike father, and a lot more earthy. A keen cricketer and rugby player in his youth, Johann once said he was not too worried about winning but hated to lose. After working at Chase Manhattan and Lazard Frères in New York in the 1970s, he returned to South Africa and founded Rand Merchant Bank.

In 1988, when South African businesses were concerned about economic sanctions over apartheid and the threat of nationalisation from a future black government, he

masterminded the separation of Rembrandt's international interests into the Richemont companies in Switzerland and Luxembourg.

He took Rothmans International private two years ago and merged it with Rembrandt's southern African tobacco interests. Johann puts his trust in the value of his brands, which include Dunhill and Cartier, and - like his father - has overseen the growth of a conglomerate with consistently strong profits. In the six months to September 1997, Richemont made operating profits of \$564m on revenue of \$2.32bn.



LUCY KELLAWAY

A mindset out of my orbit

Inventiveness and craziness are attributes with limited application in the workplace

Some colleagues have lost a bit of weight, some have changed their glasses, one or two have moved jobs. Otherwise, there have been few changes in the five months I have been off work. My desk has been shunted along a bit in my absence, but apart from that it has been business as usual.

Yet in the wide world of management there has been a slight shift, and I am not sure I like it. Waiting on my desk last week was a memo from our chief executive announcing the company's annual results and congratulating us on our "inventiveness", and "craziness". It is always nice to be praised, but it is hard to recognise the qualities she has picked out. I do not know anyone in the FT who I would call crazy, even in the US sense. And quite rightly so. Craziness and inventiveness do not help if you happen to be writing corporate news stories - and they are a positive disadvantage if you happen to work in the accounts office.

But craziness and creativity are where it's at right now, not just at Pearson but at go-ahead companies everywhere. The business magazines are full of it: according to the latest issue of *Fortune*, high-flying business school graduates are wandering round in socks at work, drinking beer through their noses and taking pets to the office. In the March issue of *Management Today* there is a long article explaining just how to manage creative people.

Meanwhile, business books are getting crazier too: on top of a sizeable pile of management books that has been growing while I have been away is a volume called *Orbiting the Giant Hairball* by Gordon MacKenzie. This is a crazy little book written by a crazy guy (you can see he's crazy because he is pictured barefoot wearing a rainbow coloured T-shirt). He has worked at Hallmark Cards for 30 years and his formula for success is to "slip the bounds of Corporate Normalcy and rise to orbit - to a mode of dreaming, daring and doing above and beyond the rubber-stamp confines of the administrative mindset."

Call me a sad frump, but I think the administrative mindset has a lot to be said for it. Creativity is a small - and not necessarily the most important - part of what we do at work. Breaking the mould is all very well, but think what chaos there would be if we were all

trying to break it all the time. In real life, most of us get paid to do a particular job in a more or less prescribed manner. We can do it well or badly depending on how good we are and on how much energy and enthusiasm we devote to the task. Next time our company happens to produce good results I would prefer the chief exec to thank us all for those un-cliché virtues of conscientiousness, efficiency and effort.

Talking about mindsets, Barclays bank IT staff have been doing something strange to theirs. Under the codename "Renaissance" they have been on a five-day programme to learn five "key skills": how to learn; how to think; how to manage your life; how to lead your life; and how to live your life. Learning to live and learning to think sound pretty fundamental. One could say that if you have not acquired such key skills it is a miracle that you managed to get a job at Barclays in the first place. Yet the programme has apparently been a giddy

success: designed to change the long hours culture, it has just been shortlisted for this year's Opportunity 2000 awards. Indeed, on the strength of Renaissance, one Barclays IT employee has allegedly managed to cut his working week to 35 from 70 hours. I'd like to know what he was doing before. But even more I'd like to know how they taught him how to live. Step one: breath in and breath out. Step two: eat...

I have been having trouble with my non-executive director since I described his interference in my domestic arrangements in my last column. Not only does he object to being referred to in this way, he believes - like all non-execs - that his advice is right on the button. Furthermore, he points out that it is the non-executive who controls the pay of the chief executive: an observation that does not apply to us.

He has also tried to get off the hook by comparing himself to previous generations of men. If he is a non-executive, he argues, then his father was a passive institutional investor who turned up for a sherry and a crisp at the agm. This comparison is supposed to make me feel fortunate. But it does not work. Ask most real chief executives what they feel about powerful non-execs and they may well say they are a good thing. But in private they may admit that there was a lot to be said for the old system in which investors were passive, non-execs were golfing chums and the boss was simply left to get on with it.

WATCH IT WITH THE TIES, SIMPSON - THIS COMPANY ONLY HAS ROOM FOR ONE CRAZY, INVENTIVE, OFF-THE-WALL KINKA GUY AND THAT'S ME



LATER THIS WEEK

TOMORROW
Management: A question of survival of the largest? A three-part series starts on gigantism in companies by John Kay. Further articles will appear over the next few days.
Plus: European Court

WEDNESDAY
Information technology: Paul Taylor reports from CeBit, the Hannover electronics show, on attractions including the latest palm-held computers. And Louise Kehoe's Eagle Eye column.

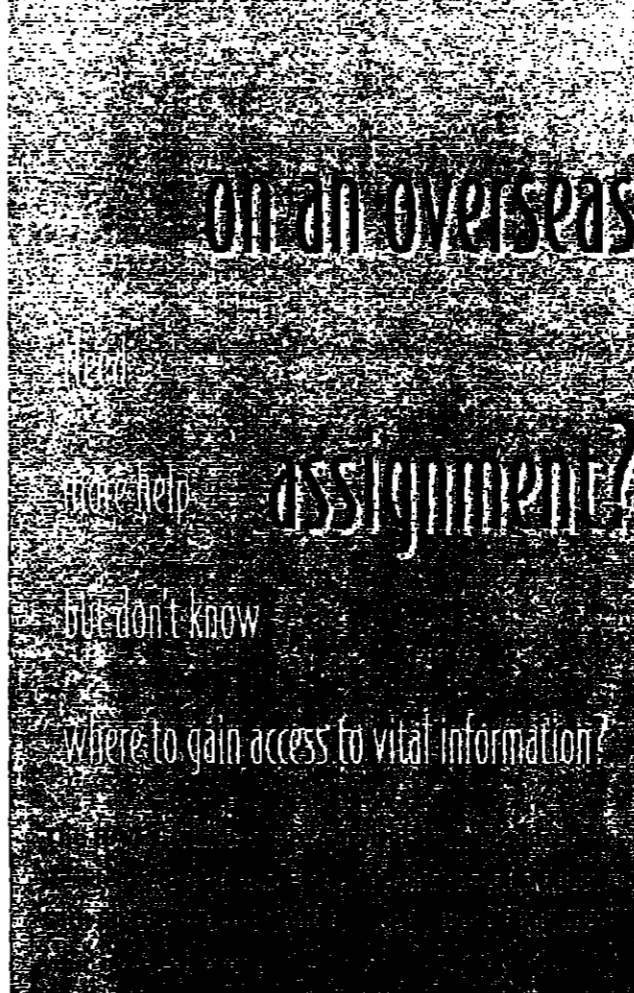
Plus: Professor John Hunt offers his advice on effective leadership.
THURSDAY AND FRIDAY
A selection of management and technology articles, including Vanessa Houlder's Worth Watching column.



Fair play in Lisbon: The FT guide to Expo 98 tomorrow

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Merrill Lynch on preparing for change.



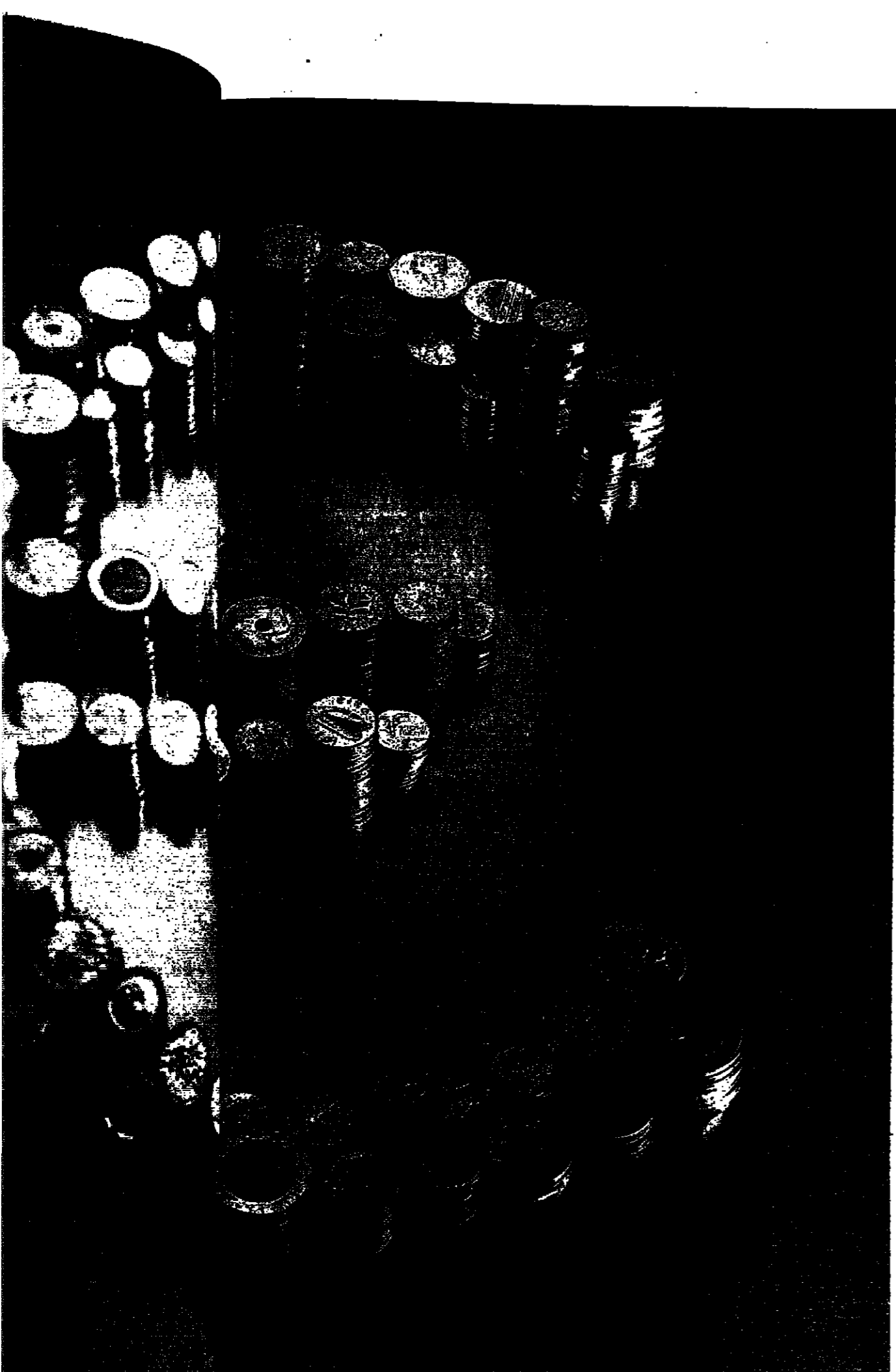
When the European single currency comes into effect, one thing is certain: a great deal will change.

Without the traditional tools of interest rate control and exchange rate adjustment, governments will have to change the way they respond to fluctuations in their economies.

As a result, we anticipate new thinking on taxation, more deregulation in labour markets and greater wage flexibility. Throughout Europe, tight restrictions on government deficits could also lead to shrinking public sectors and accelerating privatisation programmes.

For companies, the advent of a single currency should finally turn the much-vaunted single market into an everyday trading reality.

Both cross-border investment and trade will become less risky.



Without the traditional currency risks, there will be a much greater willingness to invest outside domestic equity markets. The burgeoning share-owning culture in Europe seems likely to gather pace as individuals look beyond bonds and conventional bank deposits for their accustomed investment returns.

Throughout Europe, pension fund managers and private investors are already starting to change their asset allocation strategies and consider new benchmarks accordingly.

What won't change.

Amidst all these fundamental changes, one thing won't: our commitment to help you make the most of them.

Reliable analysis will be critical in the run-up to EMU - and we have the largest research team in the world. In Europe alone, we have 130 analysts monitoring developments on the ground in nineteen different countries. With leading shares in the world's major equity markets, we also have unrivalled experience of managing dynamic economic conditions on a global basis.

In short, if anyone can help you handle change of this magnitude, it's Merrill Lynch.

We have already made a significant investment in the new Europe. From developing practical tools like portfolio rebalancing software for Euro-denominated securities to our recent merger with Mercury Asset Management, one of Europe's leading investment managers, our preparations are well advanced.

The single currency: time to be single-minded.

Much can - and will - change on the road to EMU. For all our intimate local understanding and international perspective, we do not have a crystal ball.

But this much we can see: the paramount need to be prepared.

Now is the time to assess your new competitors. Consolidate your market position. Review your portfolio's asset allocation. Make plans to restructure your treasury operation. And explore new opportunities to raise finance in the new liquid Euro corporate bond market.

We are already advising our clients on all these issues.

For them and many others, a year of single-minded commitment to dealing with the implications of the single currency now could make all the difference in 1999 and beyond.

The difference is Merrill Lynch.

It will be easier to compare prices right across Europe. But, as the playing field widens and traditional barriers fall, competition will inevitably intensify.

In our view, as companies come to terms with this new environment, the recent trend towards mergers and acquisitions will continue apace. Treasury functions will change. Traditional banking relationships will be transformed. A deeper, more liquid corporate bond market will develop. We anticipate that whole new financial instruments will emerge.

All change for stock exchanges.

As soon as the new currency is launched, most of Europe's stock exchanges are expected to quote shares in Euros.

INSIDE TRACK

BUSINESS EDUCATION PUBLISHING

The textbook that took off pre-launch

Victoria Griffith on Merton and Bodie's 'definitive' new volume

"Have you seen the new Finance textbook?" The query making the rounds of business schools these days is uttered with such reverence that the question might as well be: "Have you seen the light?"

Robert Merton, who shared last year's Nobel prize for economics, and Zvi Bodie, a professor at Boston University's business school, have penned what is being hailed as the definitive book in the field of finance. "This textbook will change the way finance is taught at business schools around the world," says James Angel, professor at Georgetown University's school of business. The eminent economist Paul Samuelson, who taught both authors when they were students at the Massachusetts Institute of Technology and wrote the foreword to the book, calls it an "innovative work that sets a new pattern of excellence".

The enthusiastic reception is remarkable because the text, *Finance*, has technically not even been published yet. As is common practice in the academic field, the textbook's publisher, Prentice Hall, has circulated some "preliminary editions" to obtain feedback for the final version, not out for another year.

Eight business schools, including Harvard, Georgetown and Boston University, have already included the preliminary edition in their curriculum. The online book seller Amazon ordered 1,000 copies of the test version.

Why all the fuss? Some of the attention can be attributed to Prof Merton's recent Nobel laurels. Yet that is only a small part of the story, say supporters. The book, which has been in the works for six years, fills what many call a yawning void in the field.

Professors Bodie and Merton, like many of their supporters, say finance is taught illogically today. "We've got it as backwards in the classrooms," says Prof Bodie. "We look at the tools that might be useful at a Wall Street corporate finance department - like options and portfolio diversification - and say that's the field of finance, it's not."

Finance takes a much broader look at the discipline. The authors define finance as "streams of costs and benefits over time, with the costs usually coming early on and the benefits further out and more uncertain."

The streams are allocated by three "decision-making units": households, companies, and government. "Most finance books would just look at companies, and leave out households and government," says Prof Bodie.

The book uses examples that range from the erudite to the everyday. To illuminate the clearing and settling of payments, for instance, *Finance* tells its readers to imagine they are taking a trip around the world. Taking along suitcases of fur and jewellery would be inconvenient, the text points out, illustrating an important function of the financial system: to keep people from wasting time.

Similarly, the "law of one price", which says that similar goods sell for similar prices, is applicable to arbitrage and currency trading. But it's also applicable, Prof Bodie points out, to the way real estate agents estimate the value of a house.

"They look at what similar houses in the neighbourhood are selling for," he explains.

The authors believe using examples such as household budgeting and accounting at the corner shop not only make finance easier to comprehend, but also allow trends to be anticipated more easily. "To understand why banks are on the decline and mutual and pension funds are on the rise, you need to look at personal finance," says Prof Bodie.

"What happens within millions of individual homes heavily influences financial markets."

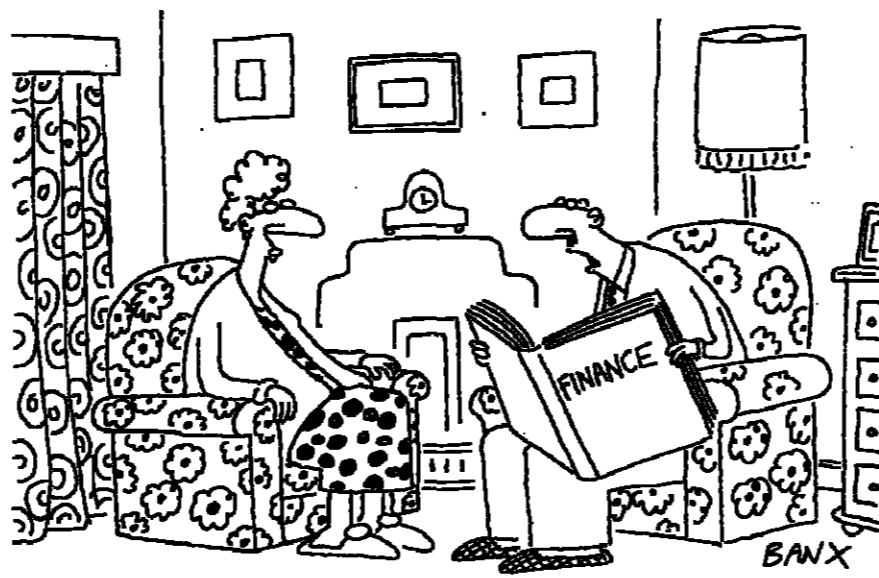
For example, many economists believe the baby boom generation's desire to save for retirement has caused huge flows into mutual funds and strengthened the bull market in the US.

Finance as a tool, say the book's authors, is used to accomplish three things: transfer resources, conduct transactions, and manage risk. Supporters of the new

text especially like the way it deals with risk management. "There are basically three things you can do to contain risk, as this book explains - diversify it, insure it and hedge it," says Prof Angel. "Other texts might have a chapter on options that has no relationship to the rest of book. In *Finance*, by the time you get to options, you readily understand that they can be used to insure or hedge your risk."

Because *Finance* is a textbook, full of mathematical exercises and formulas, it will probably hold little appeal for the general public. Yet Prentice Hall and the authors see potential for a personal finance version aimed at a wider audience.

Referring to the Englishman whose best sellers turned black holes and comets into dinner party conversation, Prof Bodie says: "I'd like to be the Stephen Hawking of the finance world."



"THERE'S A SECTION ON WHY WE'RE NOT RICH."

"This will change the way finance is taught around the world"

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Asian economic crisis hits training

The south-east Asian currency crisis is affecting management training in all sorts of ways. For example, the Junior EU-Asian Managers programme (Jem), run by the European Union, has suffered a dramatic drop in applicants over the past year.

Jem, now organising its final programme, was set up as an exchange between managers in south-east Asia and Europe. Participants spend six weeks studying in Europe or Asia and then a further six and a half months on a placement with a local company.

When complete, the scheme will have run for three years. But it has fallen well short of attracting the intended 300 young European managers wanting to study in south-east Asia and 700 south-east Asian managers wanting to travel to Europe. Only about 150 have shown an interest.

More than 60 per cent of the cost of the scheme is paid for by the EU and the rest by the participating companies.

● At London Business School students are already looking for summer placements, which they will begin on June 15. During the summer they will carry out projects and will be paid a fee by participating companies.

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NEWS FROM CAMPUS

For high fliers in Scotland

The first Advanced Directors' programme in Scotland will be launched this week, run by the Edinburgh-based organisation Advanced Management Programme in Scotland, which was set up by Scottish companies and public bodies.

The two-day programme is directed at executive and non-executive board members and for employees who are being groomed for a place on the board.

AMP in Scotland: UK, 131 225 6990

Judge looks for faculty

The Judge Institute at Cambridge University has started a recruitment drive for faculty in a response to the rapid growth in its MBA and research programmes.

The school is looking for three professors - in healthcare management, enterprise studies and marketing and strategy - and a new MBA course director, as well as a clutch of lecturers. Judge Institute: UK, (0)1223 339700

POTTED THEORIES QUALITY SYSTEMS

The consumer rules

Richard Donkin on the US pioneers who inspired the Japanese boom

It may be simplistic to think of two underlying strands of management running through corporations in the 20th century but there do seem to be discernible camps - those influenced by humanistic ideas and those wedded to process.

The quality movement, arguably the most influential post-war management idea, appears to have feet in both camps. While the quality systems pioneered by W. Edwards Deming and Joseph Juran are process-driven, they also rely on the ability of employees to strive towards perfection.

Both Deming and Juran worked during the 1920s at what must have been a melting pot of management

innovation - Western Electric's Hawthorne Plant in Chicago where Elton Mayo carried out his experiments on working conditions.

Deming taught the methods of Walter Shewhart, a mathematician who devised a statistical control of processes, to US engineers in the 1930s and the world war two.

His work was largely unrecognised in his own country but in 1950 he was invited on a lecture tour talking to Japanese engineers. It had a profound effect on Japanese manufacturing and helped transform its reputation.

Deming's consumer-driven approach to business was encapsulated in his 14 points for management which stressed continuous improvement in production and service, building in quality from first principles, improving staff communications and training.

But this also involved the abandonment of demarcation, coercion of workers, management by objectives, quotas, product inspection and working to lowest tender contracts.

Deming and Juran differed in approach but were united in their basic beliefs. It was not until the resurgence of Japanese industry began to hurt the US in the 1970s that the west began to take notice. Quality had always been attainable but had often been sacrificed in mass production. A new generation of Japanese and US experts have shown that quality can be built into every stage of business, from design to customer service.

Quote: "The consumer is the most important part of the production line."

W. E. Deming (1900-83).

Worth reading: Out of the Crisis, W. E. Deming, Cambridge University Press, 1988.

ACCREDITATION EUROPEAN UNIFICATION

Europe counters US stamp of approval

After years of prevarication and discord Europe's business schools will today see the first fruits of their plans to develop a Europe-wide accreditation system, which will give the quality stamp to Europe's top business schools.

Six of the continent's most prestigious schools will today be ratified under the EFMD scheme, devised by the EFMD (European Federation for Management Development), the European busi-

ness schools' trade body. The scheme was announced a year ago and is largely intended to counter the aspirations of rival AACSB, the American accreditation body which has been flexing its muscles in Europe.

The six schools involved - Insead, HEC and ESCP in France, London Business School in the UK, SDA Bocconi in Italy and Eade in Spain - were chosen from 19 which volunteered to pioneer the scheme.

Although the six have to receive the official seal of approval today, there is little doubt they will succeed. As Bernadette Contraths, director-general of EFMD, put it, "The pioneering schools have a double role: they carry the process but they also help set the benchmarks."

To be approved under Equis, which stands for the European quality improvement system, is arduous. Four accreditors spend three

days at the school looking at degree programmes, executive courses and research - not just the MBA programme. To ensure the participants fulfil the requirements of industry as well as academia, there is at least one business person in the accreditation team.

The other 13 business schools already in the process, including IMD in Lausanne, will be assessed this year. There will be two further meetings of the accreditation council, headed by Carlos Cevalle, dean of Ise in Barcelona, before the end of the year.

A further 30 schools have already expressed an interest in participating in Equis. Ms Contraths says, no US school has yet expressed interest in the scheme although EFMD has already been approached by some in Latin America, Australia and south-east Asia.

Della Bradshaw



GERRY BAKER
FILE FROM WASHINGTON

Losers in primary colours

The first US presidential contest of the new millennium is only 1,000 days away and the contenders are inoculated by failure

Among many other things, the launch this weekend of the film version of *Primary Colors*, the roman-clef about a certain 1992 election campaign, was a reminder that the first US presidential contest of the new millennium is only 1,000 days away.

With Bill Clinton's legacy still highly uncertain, the principal contenders for the Democratic and Republican party nominations are already slugging it out between Washington, Iowa and New Hampshire, the latter two locations being the familiar sites of the early primary contests in 2000.

It is clear that the line up this time round will be made up almost exclusively of previously unsuccessful candidates. In fact, it is so thick with the ranks of the defeated that it looks like one of those races held in certain Olympic sports in which the fastest losers face off against each other.

It is, in short, the *repêchage* of presidential races.

Consider the principal candidates. Vice-president Al Gore, well out in front for the Democrats' nomination, lost badly in his only previous outing for the nomination in 1988 - beaten by Michael Dukakis, architect of a gloriously unsuccessful campaign against George Bush in the election later that year.

Richard Gephardt, the Democrats' leader in the House of Representatives, and Mr Gore's closest challenger, was also beaten by Mr Dukakis, even more handsomely, in the same year.

Another Democrat who may put in an appearance is Jesse Jackson, who, in two previous attempts, has demonstrated to the point of destruction that he holds a permanent lock on the minority vote - and not much else.

On the Republican side, figures are little better. The main contenders include Jack Kemp, who lost the nomination race heavily in 1988 to George Bush; Dan Quayle, who has never contested the nomination himself, but who went down to heavy defeat as George Bush's vice-president in the 1992 general election; and Lamar Alexander, who was beaten in 1996 after a bewilderingly bad campaign to which his only memorable contribution was a ubiquitous plaid shirt, designed to portray him as the party's Everyman.

Even those Republicans whose names are mooted as strong possible challengers - George Bush Jr, the governor of Texas, and Elizabeth Dole, head of the American Red Cross, are tainted by a close family connection to previous losers. Mr Bush is, of course, the son of the former president, and Ms Dole the wife of that high priest of unsuccessful election campaigns, Bob Dole - who lost the general election as vice-presidential candidate in 1976, the Republican nomination for president in 1980, and went down to ignominious defeat in the presidential race against Bill Clinton in 1996.

An undisputed bunch of losers and near-losers. Does it mean anything?

Some argue this roll-call of losers is only the latest manifestation of the dumbing down of the federal government. In the post-cold war era, respect for government and leaders in the US has declined sharply. There is much talk of the New Federalism, where the figures who dominate Washington life matter less than the state governors and city mayors. Unsurprisingly, some say, that presidential elections produce such an unexciting crop and leading members of Congress retire early to their states where more interesting politics await.

But that is probably overlooking it. Defenders of each of the candidates say that to succeed in politics it is often necessary to have failed at least once. That is certainly an adage observed to the letter by the Republicans. Since 1964, no man, with the exception of Gerald Ford in unusual circumstances, has been selected for the party's nomination who had not previously lost at least one national election. Even Ronald Reagan, the nonpareil of Republican electoral success in the modern era, had a big defeat behind him.

For the Democrats, though, the picture is rather different. Three of the party's last four candidates for president had not run (and lost) a national campaign before. Though it is still early days, and there is a chance that, as they did in 1976, 1988 and 1992, a candidate will emerge from relative obscurity to capture the nomination, it would be

unwise to bet on it.

In fact, if, as seems probable, the 2000 election is a battle of the previously unsuccessful, what it will most likely suggest is that American politics - on both sides of the political divide - are becoming increasingly the preserve of party insiders.

The simple reason is the name-recognition factor. It is easy to forget how unfamiliar the vast majority of would-be presidents are to the average American voter. The personal nature of a presidential election, the size of the US, the primary system and relatively weak partisan loyalty, all combine to remove the political compass for most voters.

The best hope, perhaps increasingly the only hope, a potential candidate has at the outset of a campaign, is if his or her name is at least recognised by enough households to generate some interest - and more importantly, some money from wealthy supporters.

Though it is a hard and painful way to get recognition, having at least one unsuccessful campaign behind him is the best means for a candidate to improve his chances of appearing on voters' radar screens.

There are other ways to win the recognition. One that Bill Clinton learned in 1992 was notoriety. Within weeks of his campaign start, he was the best-known candidate in that lacklustre 1992 field thanks to accusations of extra-marital sex, draft dodging, and marijuana smoking.

While it clearly did governor Clinton no harm most future presidential hopefuls still prefer to take the loser route.

BUSINESS EDUCATION

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Travel agents put accent on a new sort of booking

If you are on first-name terms with your travel agent, start looking for a new friend. Agency booking personnel are set to follow switchboard operators into oblivion thanks to the advent of voice recognition reservations systems.

Two US travel agencies – American Express and Omega World Travel – are at an advanced stage of developing systems that allow the traveller to make a flight inquiry and book a seat without human intervention. David Pereira, Amex's senior manager of innovative corporate services, predicts that voice recognition, along with bookings made through personal computers, will be commonplace for simple trips within three years.

The main benefit is financial. "We are trying to eliminate the highly repetitive, simple transactions that make up two-thirds of our business," says Mr Pereira. Many companies now remunerate their agents through management fees, which can be reduced by removing personnel costs.

Dan Bohan, Omega's chief operating officer, claims the average cost of an air ticket transaction in a New York travel agency will fall from \$40 to \$12-\$15.

Each also maintains that voice recognition will be more convenient for travellers and will not leave them waiting for their calls to be answered.

The Amex and Omega systems work slightly differently. Omega customers are interrogated by the speaking computer, which

asks where they want to fly and the day and time. The computer then faces or e-mails six possible flights, with six fare options for each. Each flight/ticket combination is coded and passengers call back to announce their preferred option. Omega's system, which will be launched within the next two months, can book journeys involving up to four legs.

The Amex project, provisionally called Travel Talk, is around one year from fruition. It recognises normal speech patterns, so that after asking "How can I help you?" it responds to a sentence such as "I would like to travel from Chicago to Newark tomorrow at 6am."

The system consults its database and quotes the lowest available fare. Since customers submit a Pin number to gain access, Travel Talk can be made to quote fares and flights that only fall within a passenger's corporate travel policy.

Travel Talk also allows the passenger to change information such as dietary and seat preferences and even forecasts the weather at the destination. If it cannot deal with a request, travellers dial zero to talk to an agent.

The system recognises eight different American accents. As many again would be required for the UK, making its progress across the Atlantic some way off, but Omega says it will launch its system in the UK one month after its US introduction.

Amon Cohen

IN BRIEF

Airlines extend smoking bans

Smoking will be outlawed on dozens more flights during the next fortnight. British Airways, most of whose flights are smoke-free already, will extend its ban to all services from March 29. On the same date Lufthansa will do the same, while the whiff of Gitanes is to disappear from Air France flights across the north Atlantic. On other long-haul routes, Air France will continue to provide special areas for smokers. Meanwhile, from April 1 Kenya Airways, which already forbids smoking on its domestic and regional services under three hours, will extend the ban across its network and Royal Brunei will introduce a ban on all but its Brunei-Osaka route.

Loosen up at that conference

Do you doze off at conferences? Inter-Continental Hotels has come up with an antidote. Instead of a black coffee break, it will arrange 10 fitness sessions under the supervision of trainers. At the group's Jakarta hotel, for example, delegates can loosen up with a massage and aerobics. In Miami, they can opt for body stretching, although the resolutely sedentary may prefer one of the Florida hotel's 10-minute mini-lectures.

Manchester air route challenge

Fresh competition comes to the UK's London-Manchester route on Sunday when British Midland takes on British Airways with eight flights a day from Heathrow and dedicated business-class cabins. Economy fares on the new service will start at £59 return. Cheapest business class round trip will be £178.

Dubai terminal set to open

A new terminal designed to handle 2.5m passengers a year is scheduled to open at Dubai Airport next month. The development is part of a \$540m (£324m) programme, which

includes an expansion of the existing terminal. The number of check-in desks there will increase from 42 to 213, and there will be more passport counters – with fast-track lanes for VIP or first-class travellers. Premium fare passengers with locally based airline Emirates will have an exclusive check-in area.

Polishing up the hotel reception

Tokyo's Royal Park Hotel has set up a check-in desk exclusively for women business travellers. It will be staffed by receptionists primed with information about suitable places to eat and entertainment in the city. The move is part of a marketing drive that includes the provision of cosmetics and nail polish remover in rooms. The hotel, part of the Summit International chain, is close to the stock exchange and the airport shuttle bus terminal.

New-look Qantas cabin takes off



This week Qantas is unveiling its new-look first-class cabin, although travellers won't be able to sample it until June 18, writes Gill Upton. Qantas has emulated and arguably improved partner British Airways' fully reclineable, individual "booths" by reducing the partition between seats and taking out two seats to make for a more spacious feel to the 14-seat cabin. Qantas will also start fitting new seats for business and economy in June.

Roger Bray

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	10	15	14	13	16
Hong Kong	22	20	22	23	22
London	10	12	13	13	13
Frankfurt	8	11	12	12	13
New York	8	5	7	12	16
Los Angeles	21	20	18	17	19
Milan	12	14	16	18	19
Paris	10	12	13	15	15
Zurich	6	8	11	14	12

Information supplied by Meteorological Service of the United Kingdom

Maximum temperatures in Celsius

BUSINESS TRAVEL HEALTH

Beware of low flow on aircraft

Farrol Kahn on the chances of getting a mid-air blood clot

Air travel has been shown for the first time to be a significant factor in causing blood clots by a recent study at a Honolulu hospital.

Undertaken by Dr Alicia Mercer and Dr Joel Brown, the study has demonstrated that about 50 per cent of patients with the condition travelled by air within 31 days before their symptoms developed. All had flown non-stop for four hours or more and 38 per cent had no predisposition to this condition. Such clotting, known as deep vein thrombosis (DVT), can occur to anyone of any age or sex.

In the UK, there are an estimated 90,000 cases of DVT a year, according to European Union figures, and about 34,000 deaths when the clot breaks free and lodges in the lungs. This is the cause of about 20 per cent of sudden deaths, according to Dr Emile Ferrari at the Hospital Pasteur in Nice, who also conducted research into

the condition. DVT can also occur in passengers travelling on other forms of transport when journeys are prolonged or seating conditions cramped. A seated person's circulation is cut by 50 per cent after only a few hours and the blood pools to form swollen feet and ankles.

However, impaired circulation alone is not enough to produce the condition. Other factors include dehydration, eating fatty meals, smoking, varicose veins and surgery within the previous three months.

The onset of blood clot symptoms – which include pain, swelling, redness and sometimes a fever – in the US study occurred on average a fortnight after the flight. But some people had signs during the travel and others a month later.

The most dramatic incidents that occurred in-flight happened to frequent flyers who had taken sleeping tablets and slept for hours in a cramped position. Two cases involved middle-aged men, one of whom might have died had it not been for a defibrillator on board.

Roger Hunt, a 55-year-old



Long stretch: The more room passengers have, the less danger of a thrombosis

marketing director from an asset management company, flies regularly to the US and Australasia. He collapsed on the way to the lavatory on a flight between Singapore and London.

A doctor on the flight said Mr Hunt had no history of

cardiac or respiratory problems and was not under any medication and had no allergies. However, he had taken a couple of sleeping tablets.

It was later discovered he had suffered multiple blood clots in his lungs. The first 24 hours of the condition are

critical, as the death rate is 50 per cent. Mr Hunt considers himself lucky to be alive.

Robin Littlewood, a company secretary of Fletcher Challenge, the resources group, was involved in another emergency and almost died. His heartbeat

stopped twice, but fortunately the Qantas flight he was on carried a defibrillator. Mr Littlewood believes that airlines should warn frequent flyers of the DVT hazard.

Airline pilots are informed of the risk of DVT and preventive measures. The Aerospace Medical Association also advises against using sleeping pills on flights.

Dr Ferrari said the risk of blood clots in travellers is three times greater than that among non-travellers. People particularly at risk include those with a family history of DVT, women taking oral contraceptives, passengers taking sleeping pills in-flight and people with leg injuries.

The author is the director of the Aviation Health Institute, 8 King Edward St, Oxford OX1 4HL.

RISK FACTORS

for deep vein thrombosis:

- o Smoking
- o Varicose Veins
- o Family History of DVT
- o Recent surgery
- o Past injury especially to abdomen, pelvis or legs
- o Cancer
- o Immobility
- o Use of oral contraceptives
- o Obesity
- o Pregnancy

Sources: Annals of Internal Medicine and American Journal of Surgery

PREVENTIVE MEASURES

1. Avoid taking sleeping tablets. If you do, ensure you do not fall asleep in a cramped position.
2. Keep your feet on the leg rest at its highest elevation.
3. Take aspirin. It thins blood.
4. Preflight, moderate exercise, such as brisk walking for 20-30 minutes in the airport prior to departure. This exerts a protective influence on the circulation and decreases the tendency of the blood to clot for several hours. In-flight, move your feet up and down to stimulate walking. Exercise as much as you can in the aisle.
5. Passengers with varicose veins should wear elastic or support stockings.
6. Drink at least one glass of water an hour.
7. Tall passengers should try to ensure they have bulkhead or aisle seats.

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INSIDE TRACK

TECHNOLOGY TYRES

Tyremakers on move with latest models

Flexibility is the key to success for big producers, writes John Griffiths

They are playing a new game in the world tyre industry - "What's my codename?" At Goodyear in the US, it is Impact, while Italy's Pirelli has Flexi and Michelin of France, with characteristic coyness, has CSM.

It is a sign that the world's big tyre-makers are on the move. As their customers in the motor industry develop an ever-wider variety of models, the tyre industry is having to respond with new production methods, tyre technologies and ways of thinking.

Tyremakers believe it is essential to match the trend towards fragmentation in new car markets, and that means greater manufacturing flexibility in the tyre factories. The codenames mark the rival tyre-makers' differing responses, which have been developed in considerable secrecy over the past few years.

"After a long period in which production methods have been relatively stable, now there are new systems on the

way for the whole industry," says Giovanni Ferrario, Pirelli Tyres' general manager. "The first innovations have been defined and now everybody is following and identifying new methods."

Recently Goodyear announced that it is to introduce Impact, new production processes that would increase productivity by 135 per cent, halve the number of tyre manufacturing steps, reduce direct labour by 35 per cent and materials by 15 per cent. Its announcement followed the installation by Michelin at several plants of CSM, a radical change in process technology that requires only one-tenth the space of a conventional tyre production plant.

Pirelli has been getting in on the act too. Some months ago it introduced a process called Flexi at its Breuberg plant in Germany. The new approach can produce large, high-performance car tyres - which can sell for \$300-plus each - in batches as small as 100. The Flexi system is already producing 1,000 tyres a day.

Now the Italian company is going further. It is in the advanced stage of developing a highly flexible, automated

tyre manufacturing system that will start to come on stream later this year. Executives say the system - yet to receive a codename - will put the group on level terms with the new technology being introduced by Michelin and Goodyear.

The technology has been developed mainly at Pirelli's Milan research centre. It is designed to slash production times and costs across much of the group's mainstream tyre ranges, while greatly reducing the minimum batch size, which can be produced viably to just a few hundred. According to Mr Ferrario, the company will be able to take \$200m (£120m) out of costs this year and next, although he does not say how much of this will be accounted for by the new process.

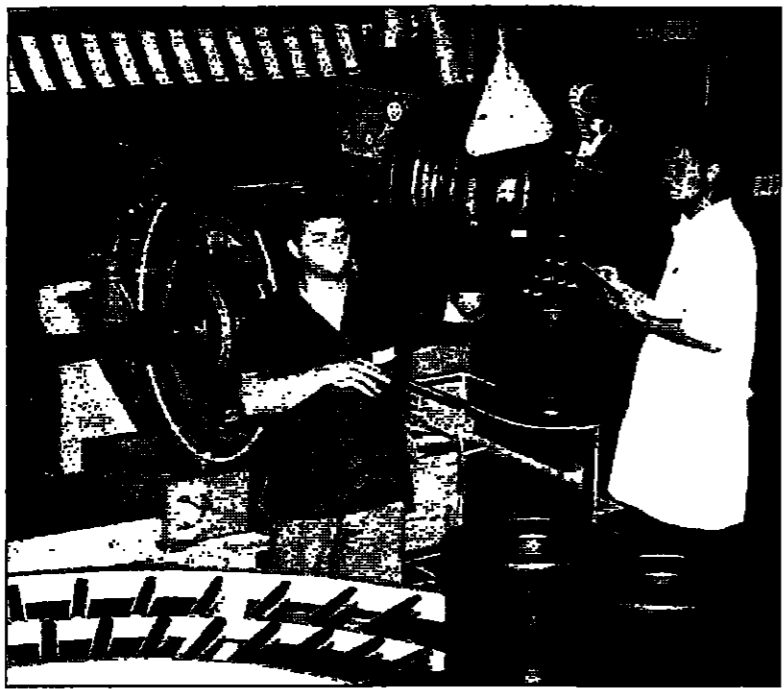
Pirelli's management refuses to discuss details of the new system, but it is understood to differ considerably from the process introduced at Breuberg. "Flexi has given us a start at the high-performance end; now we are defining solutions for the lower end and that will give us the necessary flexibility and lower costs," says Mr Ferrario. "The results will be evident before the end of this year."

The new systems and processes promise to give the French, Italian and US groups a big competitive advantage, unless other tyre-makers can demonstrate similar productivity and cost improvements. Bridgestone of Japan and Continental of Germany are known to be working on new production technologies, although few details have emerged.

"Michelin and Goodyear have done a very good job, but I believe all the major tyre companies, not just Pirelli, are identifying new systems," says Mr Ferrario.

Pirelli, like its larger rivals Michelin and Goodyear, expects to introduce its own new system gradually because of the need to amortise investment in conventional systems. "I don't think we will be at a big disadvantage - although I understand that we now have to speed up to show that we have our own answer to these rival systems," he says.

With a turnover in tyres of \$3.3bn last year, Pirelli is the world's fifth-biggest tyre-maker, behind Goodyear, Bridgestone and Michelin - each with sales of \$12bn-plus - and Continental, with annual sales of more than \$5bn.



Gripping stuff: The new techniques in tyre-making will more than double productivity

GREEN CONTENT

Carbon copies that get a grip on energy

Silica content in tyres helps reduce fuel consumption

Over recent years tyre-makers have introduced "green", or low rolling resistance, tyres by replacing much of the carbon black with silica.

Carmakers like a high silica content because it helps reduce fuel consumption, writes John Griffiths. But grip, handling performance and wear are compromised by the relative absence of carbon black, one of the traditional materials used in tyres.

Pirelli has now come up with a new formulation of polymers that has allowed the silica and carbon black to work harmoniously together within the tread compound.

It is being used in what Pirelli calls its first "world" energy-saving tyre, the P3000 range, which was launched in Brazil earlier this month.

Covering the strategic "T" speed rating segment - up to 190km per hour -

which accounts for 65 per cent of total world car tyre demand, they are to be produced in Italy, Spain, the UK, Turkey, Brazil and Argentina. Combined output is planned to reach 6m a year, with sales destined for 60 countries. Marco Tronchetti Provera, Pirelli's chairman and chief executive, says the new tyre demonstrates the group's ability to remain competitive even outside the high-performance sector in which it is best known.

The Pirelli launch follows hard on the heels of Michelin's development of a silica/carbon black "hybrid" compound for a new range of flagship Pilot Sport high-performance tyres. Michelin, Europe's market leader, has introduced several other innovations in the tyres, including lightweight high-strength steels for bracing. The under-tread compound uses carbon black to increase the stiffness of the tread area, with the tread compound combining silica and carbon black for good wet grip and dry handling.



Treading carefully: Tomorrow's tyre, a silica/carbon black compound



TIM JACKSON ON THE WEB

IdeaLab answers an entrepreneur's prayer

A specialist in 'incubating' company start-ups on the web meets an increasing need as the internet develops

Which is the biggest challenge in starting up an internet company: strategy, marketing or finance?

After six months' experience of working with a start-up, I conclude that the answer is none of the above. Instead, the biggest challenge comes from the small things. Renting office space, getting an accounting system in place, hiring office staff - even something as simple as opening an account to process credit cards. These jobs, which ought to be minor issues, may easily take up an alarming proportion of an entrepreneur's time.

That is why the human infrastructure of Silicon Valley provides such a hospitable breeding ground for start-ups. Nearly every service a small company needs is available on a short-term, outsourced basis. If you are the right person with the right idea, you can walk into a venture capitalist's office and come

out a few weeks later with enough money to pay other people to deal with the minor headaches. This means that you - and the team the venture capital has helped you put together - can concentrate on the important headaches.

Outside Silicon Valley, however, what is an internet entrepreneur to do? One answer is to go to a company such as IdeaLab (www.ideahub.com), which specialises in "incubating" web start-ups. IdeaLab's founder is Bill Gross, a serial entrepreneur whose career began in school when he resold wholesale sweets to his classmates, and triumphed when he was barely 30 with the building of a \$100m (€60m) CD-Rom business called Knowledge Adventure.

IdeaLab's model combines venture capital, out-sourcing and in-house management consultancy. When an aspiring entrepreneur comes to him with an idea, Mr

Gross makes a modest seed investment (say \$250,000 for a 49 per cent stake). This provides the business with services that include legal and professional help, a team of programmers and graphic designers, and often office space in the IdeaLab building at Pasadena, in suburban Los Angeles.

With at least six projects prominent players in the new web economy, Mr Gross can claim a hit rate higher than the average unaided start-up

Mr Gross calls it "start-up in a box". The number of companies in the stable is fast approaching 30. Three of IdeaLab's companies have already been covered here: WeddingChannel, which provides an online wedding registry, information for prospective brides and grooms, and chat groups for guests; E-Toys, competing

with Toys R Us by selling toys mail-order across the US; and IdeaMarket, selling newspaper articles and other information on a per-item basis for a few dollars a time.

IdeaLab's most successful venture to date is CitySearch, a localised listings service that spawned a competing offering from Microsoft. Its latest bet is also a search product - this time a simple search engine

called GoTo.com, where the order in which results come up is dictated by how much the websites that appear in the listings choose to pay. Mr Gross has claimed in US magazine interviews that most of the ideas for IdeaLab companies have been his own. But he is wise enough to limit himself to a minority stake, so that the people running each of the horses

in his stable feel a full sense of ownership and responsibility.

Given the development of the internet, it would be asking too much to expect IdeaLab projects to be making money yet. But with at least half a dozen projects now prominent players in the new web economy, Mr Gross can already claim a hit rate higher than the average unaided start-up or than the average seed fund.

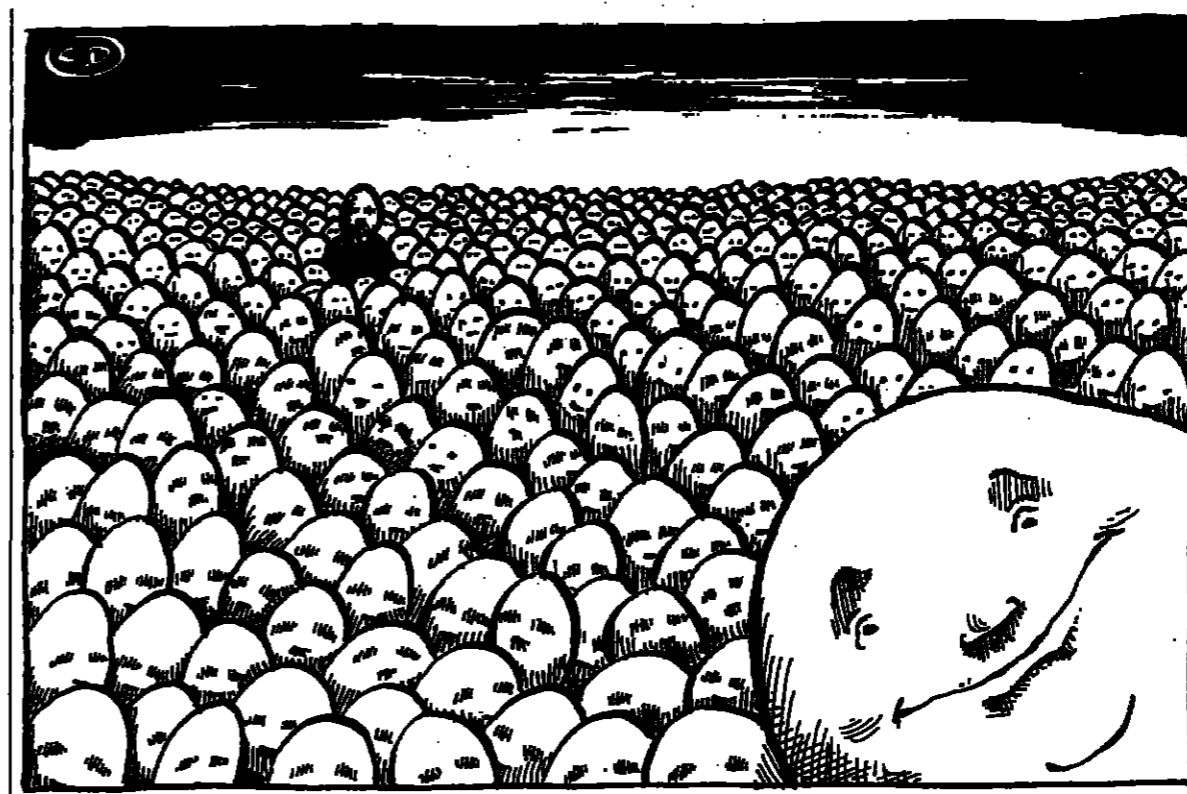
What is odd about IdeaLab is the fact that its situation in the well-served Los Angeles area puts it only a few hours' drive from Silicon Valley. The usefulness of services such as this one probably increases exponentially the further you get from Palo Alto. Places where IdeaLab is most acutely needed are London, Hong Kong and Bangalore.

So why are there no clones of the idea further afield? Probably because putting together such an incubating system is harder than it looks. To add real value, as opposed to merely giving the appearance of adding value,

IdeaLab has to have far-reaching connections with potential partners and sources of funds. It also has to have a team of crack programmers and designers in place to help the emerging entrepreneurs.

The start-up-in-a-box service is harder to provide in regulated markets and across more than one jurisdiction. That is not to say that international expansion is impossible. It is simply that a successful foreign clone of IdeaLab would require money, connections, top-flight technical people and advisers, and bags of entrepreneurial drive. This combination of assets is not impossible to put together. But entrepreneurs considering taking a leaf out of Mr Gross's book should ask themselves a tough question. Instead of starting a business whose job is to start businesses, would they perhaps have more fun - and rewards - by starting an internet business directly on their own?

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MANAGEMENT RECRUITING NEW TALENT

When the boss is chief scout

Finding the best is an urgent priority for US executives, says Victoria Griffith

Steve Jobs of Apple Computer says it has taken him half his life to fully realise the value of talented people. "I used to think a good person was worth two mediocre workers," he said in a recent speech. "Now, I think a good person is worth 50 mediocre workers."

Superbly talented and hard-working individuals will not screw computer boards together faster than 50 others. But they may be 30 times more likely to have a brilliant idea that pushes the organisation forward, and that is probably what Mr Jobs is talking about. Because of Apple's need for idea-generators, he says he spends about a quarter of his time recruiting.

As head talent scout, he is joined by many others in corporate America. Al Zeien, chief executive of the consumer products group Gillette, says 40 per cent of his time is directed at finding the best people within and outside the company. Mike Ruetters, chief executive of the computer group EMC, estimates his job is 30 per cent recruiting.

Nigel Morris and Richard Fairbank, co-founders of Capital One, a big credit card issuer, conducted 2,000 interviews last year. In the end, they made only 30 job offers. "It seems like a lot of effort for just a few good people," says Mr Morris, "but it's worth it."

Other companies, including the food group General Mills, Citibank, and the energy corporation Enron, say their senior executives participate directly in the recruiting process, conducting some of the interviews themselves. The involvement of corporate top guns has become so prevalent that MBA candidates at the elite schools now expect to meet senior level managers on campus.

"Companies can't afford that disconnection between talking about how important

it is to bring in talent and not following through by getting high-ups at the company involved," says Andrew Adams, director of career development at the prestigious business school Wharton.

The tight labour market in the US is making the need for talent scouting more pressing. "Many companies in the US have moved away from a hierarchical, process-oriented workplace to one that values creativity and

'Many companies in the US have moved away from a hierarchical, process-oriented workplace to one that values creativity and initiative'

initiative," says Steven Johanson, director of career services at Cornell's business school. "Managers have said getting good people is strategic, and more of them are actually acting like it's strategic."

Making executives available during the courtship sends the message that senior managers will be more accessible after the marriage. If they can talk to top managers before they are hired, many recruits reason, they will have an easier time winning attention once they are part of the company. Senior managers, moreover, can often convey the corporation's vision to potential employees more effectively than anyone else in the organisation.

The growing number of young, dynamic companies - particularly in the high-technology arena - has raised the stakes. The founders of start-ups usually handpick their workers, particularly in the early years. They have become fixtures at the career offices of elite schools around the country, and perhaps have accustomed students to the idea of dealing with an organisation's top level.

Big companies say their

name alone is no longer sufficient to attract attention.

General Mills says the company could once fill auditoriums with students eager for a job simply by putting up a poster. That is no longer the case. "It has become incredibly competitive," says Ken Powell, president of General Mills' cereal division, who personally conducts interviews with Harvard students. "We send huge boxes of free products to people we're interested in talking to, just to catch their eye."

Participation in the hiring process does not always

mean conducting formal interviews. Mr Ruetters of EMC says he scouts out talent in many places: at charity functions, conferences and other events. "I'm always on the look-out for good people, and so are most of the other computer company CEOs," he says.

Senior managers say they often have a different agenda in the hiring process than other staff. Dean Hum-

phrey, head of Enron's ECT division, complains that human relations divisions too often look for people to fill specific job openings. Mr Humphrey says he searches for talent, then finds a position to suit the person. "You need to be at a certain level in the company to have the self-confidence, and the power, to do that," he says.

Dwight Gertz, president of the Massachusetts-based consulting group Symmetrix, says he has seen human relations people bungle recruiting too many times to entrust hiring to mid-level managers. "I saw one company's presentation to MBA students that made taking a job there look like a year-round picnic," he says. "All the slide pictures showed people at company parties, retreats, or after-hours socialising. Was this really the message the senior executives wanted to send? I don't think so."

Upper-tier involvement in recruiting is even more crucial, says Mr Gertz, if managers are trying to effect change. "Even if your workers embrace a new vision, it's hard for them to translate that into recruiting. Leave it up to the lower levels and you'll likely get more of the same."

BusinessWeek

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THE ARTS

OPENINGS

PARIS

The Musée Carnavalet is showcasing objects of art (right) and silver made by French jeweller Chaumet from the age of Napoleon to the present. It opens on Wednesday and runs until the end of June.

WASHINGTON

The National Gallery of Art has put together the first major retrospective of Alexander Calder in the US since his death in

1976. The exhibition includes work from all stages in his career, with special emphasis on his sculptures. It opens on Sunday and moves to San Francisco in September.

LISBON

The principal UK contribution to Lisbon's "100 days" Expo festival is a production of Monteverdi's *Il ritorno d'Ulisse in patria*, conducted by Terry Christophers and staged by Alder Lang. Night Robin sings the title role. So far, "Blackie is

Penelope, and the cast also includes Robin Leggate and John Graham-Hall. There are four performances at

the Teatro Nacional do São Carlos, starting tonight.

LOS ANGELES

Oscar-nominated director, as the 1988 statistics are handed out tonight. This year's favourite is *Titanic*, with 14 nominations including Best Film. Helped by having become the highest-grossing movie of all time, it is expected to dominate all categories except performance. Here, bets are on Jack Nicholson for Best Actor in *An Inconvenient Truth*. He gets with co-star Helen Hunt tipped to beat off her four British rivals to Best Actress. Film composer Jerry Goldsmith (*Chinatown*, *Planet of the Apes*) takes centre stage at the Dorothy Chandler Pavilion, when the Los Angeles Philharmonic plays his *Music for*

Orchestra (1972). The conductor is Esa-Pekka Salonen and the first performance is on Thursday.

LONDON

The London Handel Festival opens tomorrow with the first of four staged performances of *Academi* at the Britten Theatre of the Royal College of Music. The festival also includes a performance of *Susanne* on April 18 with Emma Kirkby and James Bowman. The West End has a variety of theatre openings this week. Patrick Garland's much-loved stage adaptation of John Aubrey's *Brief Lives*, starring



Michael Williams (above), is at the Duchess Theatre tonight. Ruggie Bolt's new translation of *Le Misanthrope*, directed by Peter Hall, and starring Peter Bowles and Elaine Page, opens at the Piccadilly Theatre on

Thursday. Caroline Quentin returns to the stage after a knee injury, in *Edward*. Roverscroft's little-known Restoration comedy *The London Cuckolds*, opening at the Lyttelton Theatre tomorrow.

MARSEILLE

Richard Pelt presents his new version of *Swan Lake* for the Ballet de Marseille, under the title *Le Lac des Cygnes* at the Mimosas, which indicates Pelt's theme of the fatal effects of swans on human destiny. The choreographer's new work will be seen though not, we gather, as a swan. The first performance is tonight.

THE EYRE REPORT

Last chance saloon for London opera

Andrew Clark weighs up the options for Sir Richard

After *The Judas Kiss*, now comes the poisoned chalice. Having steered David Hare's play to its stage premiere last week, Sir Richard Eyre today starts finalising his review of opera and ballet provision in London. As a former head of the National Theatre, Sir Richard is adept at switching from practical stagecraft to political manoeuvre. But plotting a course around the dinosaurs of London's lyric theatre will test his skills to the full.

Over the next fortnight, Sir Richard will conclude a lengthy process of canvassing opinion from 450 key figures in music, opera and ballet. On April 4, he will meet members of his panel — four from the Arts Council, two from the department of culture,

'The crisis... is not artistic but a crisis of political and social confidence in opera'

plus Mark Elder, Graham Vick, Colin Nears and a handful of other respected arts figures — for a brainstorming weekend. Sir Richard will then have three weeks to write his report, before submitting it to UK culture secretary Chris Smith on May 1.

When the panel was formed in November, it included representatives of the three companies at the centre of the crisis — the Royal Opera, the Royal Ballet and English National Opera. Sir Richard soon realised their presence would hinder a frank discussion of what was wrong and how to put it right. That is why Mary Allen, chief executive of the Royal Opera House, and Paul Daniel, music director of ENO, are no longer part of the review. "Eyre has an amazing 'third eye' on what happens," says one member of the panel. "Having gathered opinions from informed people at home and abroad, and interpreted them his own way, he's in a position to produce one of the most important documents for the future of the art form."

The cynics are not so sure. Thanks to high ticket-prices and

financial mismanagement at Covent Garden, opera has become a political hot potato — too hot for Tony Blair's government to handle. That is why the Eyre review was set up in the first place. "The crisis... is not artistic but a crisis of political and social confidence in opera," argues Peter Jonas, former ENO general director and now intendant of the Bavarian State Opera. Writing in *Opera* magazine, Jonas says "money is not the problem any more than it ever was, and... cannot be in a country where £758m is to be spent on Mandelston's Dome."

Nevertheless, money for opera is a problem for a government which equates culture with the "creative industries" of film, video, design, rock and pop. This leaves Eyre with a choice. He could acknowledge New Labour's discomfort with the arts, stick within the parameters of what is politically acceptable, and advocate a slimmed-down Royal Opera House, with greater emphasis on community work, education and touring — peripheral activities which cost the taxpayer nothing extra. If he does this, he risks the collapse of the infrastructure for opera and ballet which was developed in the UK from the 1950s to the 1970s.

Alternatively, Sir Richard can stick his neck out and state in the clearest possible terms that: ■ Opera and ballet are an important part of the UK's performing arts tradition, and need to be better understood and nurtured. ■ The problems in London are symptomatic of a wider crisis throughout the country, brought on by the failure of successive governments to maintain previous levels of arts subsidy. ■ The London problem is primarily a Royal Opera House problem, caused by flawed management and a pricing policy which encourages an atmosphere of social exclusivity.

■ The only way to improve access to the ROH is to increase its subsidy, subject to strict guidelines on re-structuring, ticket prices and marketing schemes to widen the audience-range. ■ Audiences identify a company with its home, and the ENO's tradition of English-language opera, performed by its own ensemble, is best served at the Coliseum.

Talk of privatising the ROH — a mantra of Gerald Kaufman, chairman of the parliamentary select committee on culture — is little more than mischief. It would institutionalise a system whereby access is governed by an individual's buying power — the very type of elitism New Labour is seeking to destroy. A privatised ROH would remove from public control the facilities which £78m of lottery money helped to provide. And to be successful, it would require a more fundamental review of taxation than setting up a few incentives for business sponsors.

The question of funding is central to the Eyre review. If opera houses are to be supported by the state, they need to be funded at a level that makes the highest quality of performance accessible to the majority of people who want to go. Putting this into effect at the ROH depends not just on lowering seat prices and increasing broadcasts: it demands a change of culture.

Taking into account the disastrous impact of board interference over the past decade, Eyre should make clear that the board's role is non-executive and limited to fund-raising. He should

insist that Mary Allen be replaced by a properly experienced general director, with full executive authority for administration and programming. And by calling for the dissolution of the opera and ballet boards, and the designation of a ballet director beneath the general director (as at the Bastille in Paris), Eyre would offer the ROH greater artistic focus, ending the constant battle over who gets priority.

'Opera and ballet are an important part of the UK's performing arts tradition, and need to be better understood and nurtured'

Eyre should make clear that the only practical alternative to higher funding is a continental *stagione* of nine or 10 productions per season — with the caveat that it would still involve high fixed costs and high seat-prices, while offering a poor return on money invested in the building.

On the question of touring, Eyre can point to hard evidence that it costs more than staying at home, and that although audiences are not finite, they are best developed through relationships

with a particular ensemble. That is what the "spheres of influence" policy for regional companies is all about. If you send the Royal Opera to the regions, do you patronise them with a watered-down version of the real thing? If you offer them the real thing, how will it be financed and what impact will it have on less glamorous companies?

To suggest that regional audiences would be happy with slimmed-down productions is a

very London-centred view. There is a case for the occasional touring production on the lines of the Royal Opera's recent *Paul Bunyan*, just as there is a case for small-scale performances in London, in a theatre suitable for baroque or experimental repertoire. But if this means diverting resources from the central repertoire, you can forget it. Eyre should underline that the core function of an international opera house is to present mainstream repertoire in high-quality

productions — which costs a lot of money.

New work is vital — in the right context. That is where ENO's contemporary opera studio comes into play. Eyre should praise ENO as a hard-working, community-orientated company, with a balanced repertoire, a mixed audience and a variety of programmes aimed at breaking down public perceptions of opera as socially and intellectually exclusive.

Finally, Eyre should squash the idea of a dedicated dance house. The problems of ballet repertoire, with a public hooked on three-act classics, are even greater than in opera. The Royal Ballet has a purpose-built home in Birmingham; the Coliseum can continue to serve as a receiving house in the Christmas and summer breaks.

In his letter to Eyre last November, Chris Smith referred to the ROH redevelopment as "a unique chance to look to the longer-term, and secure the future of all three companies at a time when fundamental change is... inevitable." Whether the political will exists to implement Eyre's recommendations remains to be seen.

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Bully for Boulez and Bach

MUSIC

DAVID MURRAY

London Symphony Orchestra
London Philharmonic Orchestra

Pierre Boulez is in London to celebrate Elliott Carter's 90th year, and the Barbican was packed out last week for his colourful and virtuosic programme with the London Symphony Orchestra: Carter's *Three Occasions for Orchestra*, played with persuasive clarity and feeling; the "Celebration of Some 100 x 150 Notes" bubbled brilliantly; and in "Remembrance" the elegiac solo trombone was eloquent.

The third Occasion, "Anniversary", a probing, heartfelt duet for orchestral voices, reminded me of middle-period Shostakovich, who fascinated Carter. In spirit, however, the whole set of Occasions matches Carter's early mentor Charles Ives's *Three Places in New England* rather too closely; I wonder whether he's noticed?

In Stravinsky's violin concerto, Boulez drew almost as much sizzle and buzz from the orchestra as Maxim Vengerov generated in the solo role. Apparently it was the first time that this glorious fiddler has tackled the Stravinsky, but he sounded utterly at home with it. The evening ended with Prokofiev's *Spythian Suite*, a rebarbatively noisy piece in which Boulez discovered attractive life, with a light, springy beat far removed from the usual hammering.

For Bach's B minor Mass, with Mark Elder conducting the London Philharmonic, the Royal Festival Hall was virtually sold out too. Elder had five excellent soloists, led by the countertenor Michael Chance. There were also the men and boys of the St. Paul's and the Westminster Cathedral's choirs — aptly ecumenical for a Catholic Mass by a staunchly Protestant composer.

Though Elder favoured bracing speeds, he released dramatically here and there in the "Et incarnatus", and the "Crucifixus". He employed whole quartets of flutes, oboes and trumpets in the *Lucia*, so as not to have them drowned by his splendid choirs and might usefully have reinforced the cellos and basses, too. Those were mere aerial smudges, however, on a sharply compelling performance.

INTERNATIONAL

Arts Guide

BALTIMORE

OPERA
Baltimore Opera Company, Lyric Opera House
Tel: 1-410-625 1800
www.baltimoreopera.com
Carmen: by Bizet. Conducted by Alfredo Sillipigni in a production directed by David Roth. The title role is sung by Irina Mishura; Mar 25, 27

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Lutoslawski and Tchaikovsky; Mar 23

BOLOGNA

CONCERTS
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/teatrocomunale
Emanuel Aic recital by the pianist of works by Haydn, Schumann and Chopin; Mar 23

OPERA

Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/teatrocomunale
Don Carlo: by Verdi. Co-production with the Grand Théâtre de Genève, conducted by Elisha Inbal in a staging by Andrei Serban; Mar 24, 26
■ Il Campello: by Wolf-Ferrari. New production conducted by Bruno Bartoletti in a staging by Nanni Garella, with designs by Antonio Fiorentino; Mar 25, 27, 28

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-264-3000
www.chicagosymphony.org
■ Chicago Symphony Orchestra: conducted by Oliver Krussen in works by Mussorgsky/Stokowski and Krussen. With soprano Rosemary Hardy; Mar 24
■ Chicago Symphony Orchestra: conducted by Daniela Gatti in works by Brahms. With violin soloist Samuel Magad; Mar 26, 27, 28

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; Mar 25

KORIYAMA

EXHIBITIONS
Koriyama City Museum of Art
Tel: 81-249-56 2200
Aubrey Beardsley: more than 200

drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895. The exhibition marks the centenary of Beardsley's tragically early death, aged 25, and arrives at the V&A in October, after touring in Japan; to May 5

LISBON

CONCERTS
100 Days Festival, Expo '98
Portuguese Symphony Orchestra: programme of 20th century works; Main Auditorium, Centro Cultural de Belém; Mar 25

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Riccardo Chailly conducts concert performances of Mahler's Totenfeier and the closing part of Act 3 of Wagner's Götterdämmerung. With sopranos Jane Eaglen and Janice Watson; Mar 25

Royal Festival Hall
Tel: 44-171-960 4242
■ BBC Concert Orchestra: conducted by Barry Wordsworth in works by Prokofiev, Sibelius, Grieg and Mussorgsky. With piano soloist Cristina Ortiz; Mar 25
■ Philharmonia Orchestra: conducted by John Eliot Gardiner in works by Elgar, Sibelius and Brahms. With violin soloist Gidon Kremer; Mar 26

Shakespeare Theatre
Tel: 44-171-359 5399
Naked: by Luigi Pirandello, adapted by Nicholas Wright. Jonathan Kent directs Juliette Binoche in the elusive central role

Royal Court Downstairs at the Duke of Yorks
Tel: 44-171-585 5000

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
Holy Russia: Icons and the Rise of Moscow 1400-1600. 50 rarely exhibited icons lent by Russian museums are the centrepiece of this exhibition, previously seen in Frankfurt, which also includes 18 manuscripts; to Jun 14

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
■ La Bohème: by Puccini. Steven Pimlott's production is revived by Barry Atkinson and Frances Moore, and conducted by Emmanuel Joel (Alex Ingram from Mar 27); Mar 24, 26, 27
■ The Tales of Hoffmann: by Offenbach. New production by Graham Vick, designed by Tobias Holtheisel and conducted by Paul Daniel/William Lacey. Cast includes John Tomlinson; Mar 25, 28

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Cost fan tutte, by Mozart. Revival of Jonathan Miller's production, conducted by Colin Davis (David Syrus on 25, 27 Mar); Mar 23, 24, 26, 28, 27, 28

Almeida Theatre
Tel: 44-171-359 4404
Naked: by Luigi Pirandello, adapted by Nicholas Wright. Jonathan Kent directs Juliette Binoche in the elusive central role

Royal Court Downstairs at the Duke of Yorks
Tel: 44-171-585 5000

The Weir: by Conor McPherson. A haunting encounter, directed by Ian Rickson, and designed by Rae Smith

MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4833
From Whistler to Sickert: Joint retrospective of the two painters which aims to introduce their work to the Spanish public by contrasting their differences. The exhibition will demonstrate the influence of Valdezquez on Whistler as well as that of Whistler on Sickert. Whistler introduced Sickert to Degas, who in turn was to become a major influence; to May 17

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
■ L'Elisir d'Amore: the final performance of the season is conducted by Maurizio Benini; with cast including Ruth Ann Swanson; Mar 26
■ Lohengrin: by Wagner. New production by Robert Wilson, with costumes by Frida Permelegant; Mar 25
■ Siffidio: the first performance of Verdi's opera this season is conducted by James Levine, with Maria Guleghina as Lisa and Plácido Domingo as Siffidio. The production is by Giancarlo del Monaco; Mar 23, 27

Verdi's opera this season is conducted by James Levine, with Maria Guleghina as Lisa and Plácido Domingo as Siffidio. The production is by Giancarlo del Monaco; Mar 23, 27

New York City Opera, New York State Theatre
Tel: 1-212-870 5570

www.nyopera.com
La Bohème: by Puccini. Conducted by George Manahan and staged by Grazia Sciuti; Mar 28

THEATRE

Kir Kat Klub, 124 W. 43rd St.
Tel: 1-212-719 1300
Cabaret: revival of the 1966 Kander and Ebb musical directed by Sam Mendes and Rob Marshall, starring Natasha Richardson

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6599
Orchestra de Paris: conducted by Paul Daniel in works by Messiaen, Berlioz and Rachmaninov. With mezzo-soprano Vesseline Kassarova; Mar 25, 28

ROTTERDAM

CONCERTS
de Doelen Hall
Tel: 31-10-217 1700
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Debussy, Mussorgsky and Prokofiev; Mar 27

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
Wounds: Between Democracy and Redemption in Contemporary Art. The inaugural exhibition in the new building examines developments in the visual arts from the 1960s to the present. Includes works by Francis Bacon, Gerhard Richter, and Per

Kirkeby; to Apr 19

TOKYO

CONCERTS
Bunkamura
Tel: 81-3-3477 9999
Tokyo Philharmonic Orchestra: conducted by Kazuhiro Ono in a concert performance of Janáček's Jenufa; Orchard Hall; Mar 26

UTRECHT

CONCERTS
Vredenburg Music Centre
Tel: 31-30-231 4544
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Brahms, Mozart and R. Strauss; Mar 24

TV AND RADIO

■ **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

■ **EUROPEAN CABLE AND SATELLITE BUSINESS TV**

■ **CNN International**
Monday to Friday, GMT:
05.30: Moneyline with Lou Dobbs
13.30: Business Asia
18.30: World Business Today
22.00: World Business Today Update

■ **Business/Market Reports:**
05.07; 06.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 08.20 Tanya Beckett of FTV reports live from LUFFE as the London market opens.

COMMENT & ANALYSIS

PERSONAL VIEW HENRI MARTRE

Europe's counter-attack

The spotlight is on global competition in the aerospace industry and there are likely to be a number of surprising developments

In the past 12 months the European aerospace industry has been shaken by several important events, starting with the sensational announcement of the Boeing-McDonnell Douglas merger. Europe did not take long to counter-attack: the British, German and French governments issued their support for the merger of the "big three" - British Aerospace, Daimler Benz Aerospace and Aerospatiale, and have asked the companies to present proposals for this restructuring by the end of the month.

The stage has thus been set for the 21st century. The spotlight is on global competition, first between the US and Europe, and extending to the two Asian challengers, China and Japan. The fate of Russia is undecided since it is not yet clear whether Moscow will be able to capitalise effectively on the country's technological assets to forge a position in world markets.

This is the broad scheme. But the situation will not be that simple since competition does not exclude co-operation. Japan is building its capabilities with US help, while China enjoys support from the US, Russia and Europe. The US and Europe have several common interests, cutting across nearly all sectors, including energy, equipment, satellites and even aircraft and missiles.

As the game is played out, we should expect a number of surprising developments. One thing is sure: US dominance in aerospace will continue, although we should take this as a benchmark and not an example to be copied slavishly.

In the short term, the European industry's goal is to complete the first step in constructing a European aerospace group, uniting the main companies that supply the world market. This is a gargantuan task, because of Europe's widely scattered forces, different cultures and powerful interests. We are

The European industry's goal is to complete the first step in constructing a European aerospace group, uniting the main companies that supply the world market

dealing with a sort of Tower of Babel, to which we must bring order.

Sceptics abound. But the fact is Europe's disparate groups have been working together for nearly 40 years. Together, they have found a path to success, and they are deeply committed to meeting this critical challenge. In other words, everything is possible, provided we build this new world on sound, realistic foundations.

This presupposes reaching general agreement on the structure of the putative European group, a structure that must remain effective throughout the consolidation process. This process will have to be a gradual one, because of the number and diversity of the companies to

be joined. The troupe could also well include Italian and Spanish companies, as well as other French players such as Dassault and Matra.

The simplest type of structure is one that reflects reality, in a three-level pyramid: on the top, the shareholders; in the middle, the parent or holding company; and at the base, the operating units. Shareholders will be those who contribute the group's assets, in this case British Aerospace, Daimler Aerospace and Aerospatiale, as well as any others who will be welcome to join the group.

These assets may be only a part of the shareholders' own assets, which will be transferred progressively, depending on the readiness of each sector. At this stage, however, a number of ideological and political questions already arise.

Ideological aspects include the question of compatibility between Anglo-Saxon, German and Mediterranean cap-

italism; political aspects include the question of state control over national defence industries and the balance of power among the shareholders.

In practical terms, we will have to ensure each level of the group - shareholders, parent company and subsidiaries - has access to financial markets, and stakes in the company must be open to institutional and other investors. This should not be

an insurmountable problem, because the dilution of shareholding is inevitable, and in any case will have to be kept under control. State monitoring is also inevitable. In all countries the aerospace industry is considered a "sovereign" industry, and the majority of shares are in

"national hands". However, this monitoring may take several different forms: state capitalism in most countries; a strict regulatory environment in the US and UK; or tight de facto control as in Germany and Canada.

In the unique, evolving structure that is today's Europe, where the Common Foreign and Security Policy, as defined by Maastricht, is still in its infancy though countries must still ensure their citizens' defence, we have to establish a contractual system based on the fact that governments are the main customers.

This will involve inter-governmental agreements concerning general strategies, plans and programmes, and state-industry contracts governing how programmes are carried out. This system should also provide the necessary guarantees concerning ownership of the production facilities, the location of high-value activities and the continued development of

the technology base. The way power is exercised within an industrial group is also a delicate issue.

The shareholders that contribute their assets are not ready to give up their prerogatives without some solid guarantees. Respective shares should be determined beforehand to ensure fairness and to avoid getting stuck on questions of asset valuation.

It will also be necessary to establish a decision-making process, with the most important decisions taken by a qualified majority. All of this implies that the original shareholders will maintain their national identities and control during our lifetime, although this control will gradually become diluted. Creating a parent company from the shareholders' head offices will bring up the classic problems of size, definition of functions and location with the latter undoubtedly being the most difficult to resolve.

The subsidiaries will obviously be organised along product lines, giving us Airbus, Eurocopter and Ariane space entities, with others to be formed for combat aircraft, missiles and other sectors. To ensure co-ordination and capitalise on synergies, the parent company will control these subsidiaries, but this does not exclude a variety of other shareholders taking equity stakes to account for established positions.

Nothing that I have described is impossible. But we will nonetheless have to set aside both ultra-free market and dirigiste ideologies, and face up to the realities of tomorrow. As the world becomes increasingly globalised at the dawn of the 21st century, the winners will be those who are able most effectively to blend flexibility, responsiveness and the ability to deal with complexity.

The author is honorary chairman of the European Association of Aerospace Industries

LETTERS TO THE EDITOR

Banks have yet to show readiness for euro

From Lord Cobbold.

Sir, Can banks turn the theoretical benefits of the euro into reality? Corporate treasurers see two fundamental advantages to be gained from the euro - low cost, same day, cross border payments and euro-area wide pooling of cash balances.

Which bank is going to be the first to offer these services? There is no doubt that the first to do so will reap considerable commercial advantage.

Will it still be more expensive and slower for corporate treasurers to move euros from Frankfurt to Lyons than from Frankfurt to Düsseldorf? Will there still be restrictions in some countries on payments from a resident to a non-resident (but euro-area) account? Multinationals may be able to pressure their banks into providing a service for large payments, but what about small and medium-sized enterprises? And what about retail payments and standing orders?

If Visa and other credit card companies can achieve real-time settlement for retail payments, why not the banks?

For corporate treasurers, euro-area wide pooling of cash balances means offset-

ting euro credit balances in one country against euro debit balances in another, thus saving multiple transfers from diverse accounts into a central pool. Currently, this is not even possible within some individual member countries of the projected euro-area, let alone across borders.

It may also be more difficult to achieve during the transition period but that is only three short years in which to break down some deep-seated prejudices.

The challenge and commercial advantage lie with the banks. Will banks with branches or subsidiaries within each country be better placed to achieve the goal? Or will it be achievable by closer partnerships between individual banks in each jurisdiction?

The euro is not just another currency, another administrative nightmare; it is a gateway to massively improved efficiency in parastatal and commercial activity. It is up to corporate treasurers to tell the banks what they need. It is up to the banks to come up with solutions.

Cobbold, Knebworth House, Knebworth, Hertfordshire SG3 6PY, UK

Lack of coherence in policy to promote use of biofuels

From Dr Alastair M. Fraser.

Sir, The article "Less than a cure for all ills" (March 16) underlines that green taxation should form part of an overall environmental strategy. The European Commission's approach to promoting the use of biofuels shows the confusion that can arise in the absence of such a strategy.

One example is biodiesel, a diesel substitute made from vegetable oils, whose use reduces a number of pollutants and in particular reduces greenhouse gas emissions. The Commission has given a number of signals to private industry to invest in the sector and the production of biodiesel in Europe is currently around 0.5m tons.

The recent Commission white paper on renewable energy sources proposes that production of liquid biofuels should rise to 2m tons in the short term, with an eventual target of 18m tons. Clearly, the achievement of these targets requires an integrated approach across a number of policy areas - agriculture,

environment, energy, transport, taxation.

On the supply side, the role of agriculture is key, yet Agenda 2000 contains no clear policy for raw material supply for renewable fuels. Indeed, many of the proposals would mean the end for biofuels rather than further development.

On the demand side there is no consensus on the fiscal treatment of biofuels. In some countries biodiesel is fully or partially exempt from excise duties while in others no exemption is given.

This lack of coherence in different policy areas creates uncertainty for further private investment in biofuels. There is the real risk that not only will the Commission's targets not be met but there is a loss of credibility in the whole direction of the European biofuels policy.

Alastair M. Fraser, business director Europe, Novol, Piazza Ercolea 9, 20122 Milan, Italy

Real price of enlargement

From Mr D.M. Harrison.

Sir, I agree about 110 per cent with Philip Stephens on European Union enlargement. The "price to be paid" (March 13). The EU has for some time appeared long on tactics and short on strategy in this area. What Vaclav Havel in 1990 termed as the art of the impossible ("namely the art of improving ourselves and the world") has given way to good old politics as the art of the possible.

One pragmatic way of putting the price of enlargement into context would be to emphasise rather more the economic benefits likely to arise from extending the market economy eastwards, thus raising living standards and consumer demand and

contributing to the general European division of labour. A kind of continental cost-benefit analysis might both allay unnecessary fears in western Europe and galvanise modernisation in eastern Europe.

In 1996 the Spaak committee report provided the underpinning to the creation of the common market, based on the idea of merging national markets and the improved division of labour. Do we not need a similar kind of analysis today, showing what might happen if the process is belatedly extended to eastern Europe?

D.M. Harrison, 244 Rue de Rivoli, 75001 Paris, France

Entrepreneurial childcarers

From Mr Stephen Davies.

Sir, The UK Budget seems likely to create a new class of childcare entrepreneur. Recruiting unemployed single parents, preferably with two or more children, they might pay them £110 (£183.70) to work 30 hours a week as childcarers. They would charge their employees £150 a week for the provision of childcare.

Employees would have about £162 a week in their pockets, after paying for childcare, receiving tax credit and child benefit. The

£40 a week per employee the entrepreneur would make would be ample to cover national insurance contributions and other costs and leave a reasonable profit margin.

Of course, if employees agreed to look after their own rather than each others' children, the entrepreneur might regard that as none of his/her business!

Stephen Davies, Institute of Directors, 116 Pall Mall, London SW1Y 5ED, UK

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ECONOMICS NOTEBOOK ROBERT CHOTE

Heavy burden of Africa's external debt

President Clinton should use his six-nation tour to give new impetus to the current initiative on indebtedness relief

President Bill Clinton will embark on his six-nation tour of Africa today to find a continent showing tentative signs of economic turnaround after decades of underperformance. In sub-Saharan Africa output per head is rising again, inflation is falling and trade deficits are narrowing.

The discovery of oil reserves or the end of armed conflict are important factors in some of the most successful turnaround cases. But better government policies deserve much of the credit elsewhere. Sound policies - especially those that can encourage domestic and foreign investment - remain crucial if this fragile turnaround is to be sustained.

From the developed world, Africa needs flows of trade and investment and continued progress in reducing the continent's external debt burden. Unfortunately, when it comes to the key themes of President Clinton's visit, the White House seems more focused on the first and second than on the third.

This is especially disappointing at a time when the international debt relief initiative for the poorest countries, assembled painstakingly by the World Bank and the International Monetary Fund since 1996, is in need of

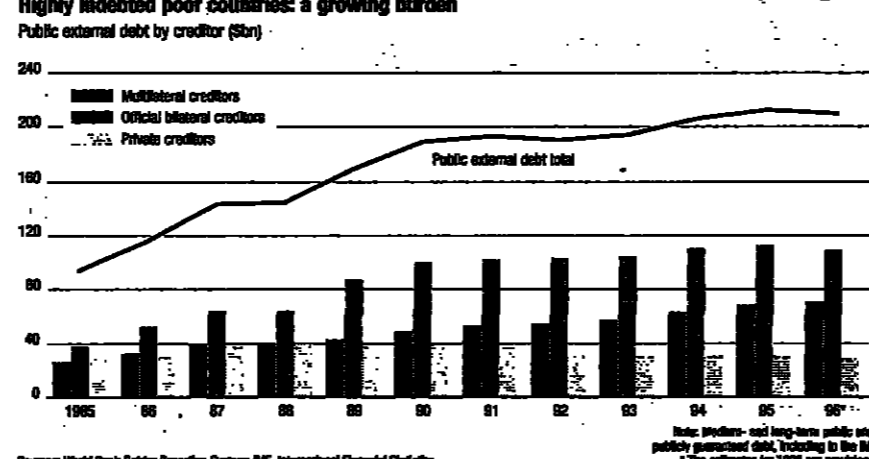
another kick-start. African countries are not the only potential beneficiaries of the scheme, but they will enjoy the biggest gains.

Many of today's highly indebted poor countries got into trouble when falling commodity prices saw their exports crumble in the late 1970s. They borrowed overseas to finance investment and to compensate for lost foreign exchange earnings.

When the debt crisis prompted most commercial banks to stop lending in the early 1980s, these countries were left to rely on government lenders and multilateral institutions. Between 1985 and 1995 their public external debt climbed from \$90bn to more than \$200bn.

The present initiative aims to reduce the debt burdens of poor countries to "sustainable" levels. In most cases it is assumed that these countries can sustain external debt with a net present value a little above 200 per cent of their annual export earnings. Once existing debt relief mechanisms have been

Highly indebted poor countries: a growing burden



Source: World Bank Debt Reporting System; IMF, International Financial Statistics

applied, and assuming that the country has established a good policy track record, the various creditors share the task of reducing the overall debt burden to this supposedly sustainable level.

Last year debt relief worth \$1.6bn at net present value was agreed for Bolivia, Burkina Faso, Guyana and Uganda. The World Bank

promised \$285m, the IMF \$145m, other institutions \$390m and government lenders \$335m. Uganda should reach the "completion point" at which the promised relief is delivered next month.

But the initiative has run into problems with Mozambique, one of the poorest countries in the world. Mozambique needs \$1.5bn to reduce

its debt to a sustainable level, more than any other beneficiary and a fifth of the initiative's total cost.

As its contribution to the initiative, the Paris Club of creditor governments has offered up to 80 per cent relief on eligible categories of debt owed to its members. But such a large proportion of Mozambique's debt is

owed to governments rather than multilateral institutions, that 80 per cent Paris Club relief would leave the institutions contributing more than their fair share.

The Paris Club countries eventually agreed to do more in January, effectively raising the relief they offer to 86 per cent. But this still leaves a \$100m funding gap. Britain has offered \$10m, Canada \$7m and the US is expected to offer relief equivalent to 88 per cent through the Paris Club. The Dutch and Noridics are also contributing.

Most participants expect bilateral donors to meet two-thirds of the gap, with the multilaterals meeting a third. One possibility would be to tap a \$170m interest subsidy fund held in the World Bank by a variety of oil exporting nations. It would be surprising if such a relatively small gap could not be closed, but the delay in closing a deal is causing a few chewed finger nails.

One problem is agreeing the terms for Russia's contribution to Mozambique. If

this proves a serious obstacle, it does not bode well for the likes of Nicaragua, Guinea Bissau and Tanzania, for which Russia is also an important creditor.

Agreeing a debt relief package for Mozambique would be a milestone for the initiative, but other challenges remain. One concern is that Ethiopia's participation in the initiative may be unduly delayed because its 1996 "enhanced structural adjustment facility" agreement with the IMF has lapsed. Ethiopia should be back on track soon and it would be unfortunate if its lapse did lasting damage to its hopes of debt relief.

Some creditor countries that have always had doubts about the plan - notably Germany - are worried that Mali is now seen as eligible for help. Mali's debt was originally thought to be sustainable under existing mechanisms, but three factors have changed the picture for the worse: weaker exports, lower world interest rates and the discovery of

more loans on its books.

Sceptics fear that other countries may follow, raising the cost of the initiative from its current \$7.5bn. But, in fact, the cost of the initiative seems more likely to fall than rise, not least because a one-year delay in Ivory Coast's eligibility will reduce the cost of its relief.

Critics who argue that the initiative is not generous enough may point to Mali as evidence that the sustainability calculations are based on systematically over-optimistic assessments of export performance. The counter-argument would point to Uganda, where better-than-expected export growth means debt relief will be slightly more generous than originally intended. With luck, President Clinton will use his trip to Africa to give new impetus to the debt relief initiative. The US has strongly supported the initiative, although its insistence on long policy track records for potential beneficiaries grates with some of its more liberal supporters.

At the very least he could recommend lifting the initiative's "sunset clause", which would keep it open beyond September this year. For countries such as Rwanda, Burundi and the former Zaire that do not yet have programmes with the IMF,

PERSONAL VIEW JOHN GRAY

When the dream turns into a nightmare

The US believes it has discovered the secret of 'a new economic paradigm'. But its over-confidence is a recipe for disaster

The American free market is riding high. Decline - the belief fashionable in the 1980s that the US's economic lead could not be maintained - has been replaced by triumphalism.

The US's policy-makers are using their power in transnational organisations to preach the virtues of American free market capitalism, with governments throughout the world being advised to emulate the American model of deregulation, flexible labour markets and welfare reform.

The Soviet collapse and the Asian crisis, America's much-admired record in job creation, and a sky-high stock market are cited as proof that the US has discovered the secret of a "new economic paradigm".

But the US has not discovered the secret of perpetual growth and low inflation. History shows there is no such thing. The long boom of the past 15 years will end. And when it does, the welfare reforms that have torn

away the safety net from millions of Americans will look less of a success story.

As long as the economy is running at full tilt, welfare rolls can be trimmed without causing much hardship. But it will be another matter when a recession arrives and unemployment starts to climb. This self-evident truth is hardly heard in American public debate.

The claim that full employment has been achieved in the US is questionable. It dismisses the more than 1.5m people behind bars in the US who would otherwise be looking for jobs. The country imprisons four times as many citizens as the UK, six times as many as other European countries and 14 times as many as Japan.

Mass incarceration - the

biggest social experiment in the US since Prohibition - has produced an imprisoned population that only post-communist Russia can match. If the number of prisoners was taken into account, the US's employment record would look less impressive - at about 8m.

The US's hire-and-fire labour markets have created millions of new jobs. But they have done so at a significant cost to social dislocation. American workers are many times more likely to move to a different region of the country than their European counterparts.

Mass mobility is indispensable to the US's deregulated labour market. But an "on-your-bike" economy scatters families and makes neighbourhoods more transient. American labour mobility

weakens the informal social controls that sustain communities and deter crime.

The free market has been accompanied in the US by extremes of social breakdown not found in any other advanced society. Nearly three quarters of all child

murders in the industrialised world occur in the US. In its treatment of children, the US fares badly even in comparison with some developing countries. A baby born in Shanghai in 1985 was less

likely to die in its first year of life, more likely to learn to read, and could expect to live two years longer than an infant born in New York.

The benefits of American productivity are unevenly shared. Economic inequalities have increased considerably over the past 20 years. A small class of stock-owners has done rather well for itself, while middle-class families have largely stagnated. A new class of working poor people has emerged

while the condition of the underclass has failed to improve. As a result, the US now resembles some Latin American countries more than it does any European society (aside perhaps from the UK).

Most Americans seem untroubled by these inequalities. Years of continuous growth have lulled them into the illusion that uninterrupted expansion is the economy's normal condition. Many seem to believe that the business cycle has been consigned to the history books. But history punishes those who imagine they are immune to its shocks.

How would American investors react if the stock market were to drop by two thirds - as it did in Japan in the late 1980s and in the US itself in the early 1970s? We

do not need to peer into the future to know that in times of economic difficulty, countries that lack a welfare state turn to protectionism.

Already, the prospect of the east Asian countries exporting their way out of their problems has produced a revival of protectionism in Congress, with Bill Clinton, the US president, being denied authority to negotiate "fast-track" trade deals.

How would Congress react to cheap Asian imports in the event of a stock market crash or full-blown recession? It would be ironic if, having used its dominance in global organisations to project free markets worldwide, the US responded to the Asian crisis by retreating from its commitment to free trade. The American free market is not so much a

model to be emulated as a warning to be heeded.

European and Asian countries need to make their economies more flexible. But, in most countries, the American model of labour market deregulation and welfare reform is a recipe for social - and sometimes political - instability. It is often claimed that in an age of globalisation there is no alternative to the free market.

Yet increasing interconnection among the world's economies does not make the spread of free markets inevitable - or always desirable. The challenge of globalisation is to reconcile the competitive pressures of world markets with the needs of social cohesion. As world markets become more volatile, it will become increasingly clear that the US's unsurpassed productivity has been bought at a price that few other countries can - or should - pay.

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FINANCIAL TIMES

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Monday March 23 1998

A harder currency

The preparations for European monetary union are over, but the real task starts now. This was the message of the meeting of European Union finance ministers in London over the weekend. The meeting produced little hard news: Emu membership was not on the agenda. But, privately, ministers made clear that the central parties of the exchange rate mechanism are the rates at which membership of the euro will take place in January 1999. European business now knows the relative costs that will be captured in the single currency.

Reports are due this Wednesday from the European Commission and the European Monetary Institute, precursor of the European Central Bank, on the eligibility of Emu candidates. But there is no serious likelihood that any of the 11 would-be members will be rejected in the reports or at the May 2 summit which formally agrees the first-round entrants. Emu is on the way.

For countries which have struggled to meet the criteria, feelings of relief will be fleeting. Living with the system will be demanding, and immediate.

Theo Waigel, Germany's finance minister, emphasised this point by urging Emu candidates to start obeying the stability pact - which punishes excessive budget deficits - this year, even though it does not officially start till 1999. He added two more poisons: countries with high debts

should accelerate steps to reduce them; and countries with a high proportion of short-term borrowings should lower this ratio.

This message was clearly aimed at Italy. Less obviously, it was aimed at reassuring the German public, worried about Italian fiscal laxity. But the underlying theme is relevant to all Emu members: living inside a monetary union imposes a heavy burden of discipline in fiscal behaviour, in domestic wage-setting, and in many previously sovereign areas of economic policy-making.

Governments' freedom of action will be eroded, in a way that many citizens fail to appreciate. Part of this web of constraints will come from market forces in a newly transparent single market. Part of it will come from peer pressure, of the sort Mr Waigel was exerting. In a similar way, Gordon Brown, UK chancellor, criticised the wide country-by-country differentials in pricing for common consumer goods and services, such as food, compact discs, cars and telephone calls.

There may not have been much news, but the underlying message was vital for governments, businesses, trade unions and individuals. Under Emu, government behaviour will be constrained by the stability pact: private sector behaviour by newly transparent competition. Once May 2 comes, the die is cast.

Clinton in Africa

President Clinton's six-nation visit to Africa, which gets under way today, could hardly be more timely. The continent is at a critical stage in its economic reforms, needing substantial foreign investment as well as carefully targeted aid if the recovery is to be sustained.

Meanwhile, the end of the cold war, the disengagement from the region of the former colonial powers, and the challenge of a globalised economy are forcing Africa to reassess its relationship with the rest of the world.

In the 20 years since a US president last visited Africa, the region has undergone a revolution. Apartheid has been defeated, autocracy is giving way to democracy, and once stagnant economies are reviving. As Mr Clinton will be able to see for himself when he stops in Ghana and Uganda. But the optimistic note sounded by the president and his advisers must be tempered by realism. Nigeria, the continent's most populous nation, remains under a military regime, and Sudan's civil war continues. Kenya, once seen as an African success story, is mired in corruption, the new government in Congo (formerly Zaire) seems overwhelmed by its disastrous legacy, and Rwanda and Burundi are wracked by ethnic tension.

And while GDP growth in sub-Saharan Africa is averaging around 4 per cent, more than

double the rate of the previous 15 years, lost ground has still not been recovered. Even if this rate were sustained over the next decade, per capita income would still be 5 per cent lower than in 1974.

The Clinton administration is right to stress that faster recovery requires more trade and investment, and the African Growth and Opportunity Bill, about to go to the senate, will reward African reformers with greater access to US markets.

But few African countries are in a position to take advantage of this. Roads and railways have deteriorated, management is weak, machinery is outdated, and the technology gap has widened.

Mr Clinton should do more, beginning with a commitment to help relieve the continent's crippling debt burden. This means greater US support for the World Bank-led initiative to reduce the debt of the poorest countries, and backing for African governments' plans to put the money saved into health and education.

He should also do some frank talking. If Africa is to catch up with its international competitors and win the foreign investment essential to growth, it must do more to reduce bureaucracy, curb corruption and expand privatisation. In return, President Clinton should offer aid as well as trade: for all the progress of recent years, Africa remains a fragile continent.

Trading losses

On Monday of last week, Japanese investors in Yakult Honsha thought they owned shares in a producer of drugs and fermented milk drinks. By Friday, they had discovered that Yakult was a loss-making dealer in financial derivatives with a sideline in the more conventional products for which it was better known. The unexpected losses amounted to the not unimpressive sum of ¥105bn (\$800m).

This dramatic turn of events serves as a reminder of the speed with which derivatives can transform the risk profile of a company, also of the slowness of the world's accountability authorities in rising to the challenge. Even in the US, which first prised open this veritable Pandora's box, the Financial Accounting Standards Board is still struggling to impose a set of rules against powerful opposition.

The Japanese do appear vulnerable to losses in derivatives trading. Back in 1993, Showa Shell announced losses equivalent to \$960m as a result of unauthorised deals in foreign exchange forward contracts. It rapidly emerged that other companies had ceased to hedge and started to punt as the yen strengthened inexorably.

Then came losses on unauthorised dealing at Daiwa Bank and at Sumitomo Corporation, whose chief copper trader was speculating furiously on the London

Metal Exchange. These incidents have caused other managers to re-examine internal controls. The unfolding story, of which Yakult is the latest chapter, suggests a less rigorous response.

Part of the problem is that the high-trust ethos of Japanese business has tended in the past to compensate for weak internal control. But the culture of trading is inherently individualistic and adversarial. And trading is what more and more corporate treasury functions are about, meaning that companies must be flexible and be able to admit mistakes. Saving face can mean losing rather a lot of money.

In many cases these disasters have been brought on by companies or individuals trying to trade their way out of trouble. This may well have occurred at Yakult, where diversification into pharmaceuticals and cosmetics had failed to produce the desired profits. The leverage in derivatives means that those playing the market can be made very rich, or very poor, very fast.

At least the Japanese have not succumbed to Western financial mores in one important respect. While senior managers at Barings clung limpet-like to their bonuses after presiding over a banking collapse, those at Yakult have handed back the bonuses and taken a pay cut. There is evidence of honour in Japan.

COMMENT & ANALYSIS

Uncertain futures ahead

Nikki Tait on futures exchanges' tactics for weathering the storms of change that are presaging mergers, consolidation, standardisation and automation

The palm fronds swayed; the cocktails flowed. Yet, for most of last week, storm clouds also hung over Boca Raton, the upmarket Florida resort where futures traders, regulators and exchange officials gathered for their annual conference.

The uncertain weather seemed appropriate for a meeting characterised superficially by laid-back pleasantries but churning beneath the surface with anxieties about change.

The global extent of the industry's current upheavals was spelt out clearly when Hal Hansen, president of US-based Cargill Investor Services, asked a group of exchange chairmen from the US, London, Paris and Singapore, to predict the shape of their business by 2000. Each painted a picture of an industry in transition - one that would see more mergers or alliances between exchanges, increased consolidation among member firms, growing standardisation of products, and a wave of automation.

"There will be fewer exchanges, more systems people talking to us, and fewer people on the floor of the exchanges," said Pat Arbor, chairman of the Chicago Board of Trade (CBOT), the largest single futures market. In Europe, suggested Gérard Pfauwadel, head of France's Matif exchange, "we will have a quite different landscape". Even Mr Hansen could only nod: his firm recently closed two of its four trading desks at CBOT in an effort to improve efficiency.

As if to illustrate the point, Friday night saw the announcement that CBOT and the Chicago Mercantile Exchange (CME), the two big US futures exchanges, had finally hammered out a deal to merge their all-important, back-office clearing operations. In the highly politicised world of futures trading, and with fierce rivalry and a cultural chasm between the two bodies, the news was roughly as though the Palestinians and Israelis had suddenly declared they were really friends, after all.

The catalyst behind this global change is competition. For much of the century, futures exchanges have held a local monopoly on their specific risk management products. Anyone seeking to lay off risk against a move in US wheat prices would use contracts traded in Chicago or, for slightly different types of grain, Kansas City. Anyone wishing to hedge against British interest rates would turn to the London International Financial Futures and Options Exchange (Liffe).

Now these monopolies are being challenged. In Europe, as countries move towards a common currency, many exchanges know that much of their local power will evaporate.

In the US, the competitive threat comes principally from the "over-the-counter" derivatives market, which has enjoyed explosive growth recently. OTC derivatives are risk management contracts, such as interest rate swaps, which are drawn up outside the regulated exchange environment and between sophisticated users, mainly large financial institutions.

The number of contracts traded this way surged by more than 40 per cent in 1996, and a further 40 per cent in 1997. Latest figures from the International Swaps and Derivatives Association suggest that the notional value of outstanding contracts was around \$28,000bn by mid-1997.



Although most US exchanges can still point to a growth in trading volumes in recent years, their share of the risk management market has declined. A survey last year by the Treasury Management Association found that 71 per cent of corporate treasurers used interest rate swaps to hedge their exposure to future rate changes, for example, while only 10 per cent used interest rate futures.

The issue in both the US and Europe has become cost. If exchange monopolies are being undermined and the quality of new rival markets is not significantly different, users will tend to trade where transaction expenses are lowest.

This is where technology cuts in. Computerisation has already widened the range of trading outlets and made it easy to deal across time zones. Now, screen-based trading is doing away with the need for the big, multi-million dollar trading floors employed under "open outcry", the system where traders buy and sell contracts by physically signalling or shouting to one another.

In the most celebrated electronic success story so far, the Deutsche Terminbourse, the all-electronic German exchange, has snatched a commanding share of trading in the German 10-year government bond contract from the Liffe, which to date has mainly used conventional open outcry.

The precise extent of cost savings offered by electronic trading are a matter of debate,

and vary according to individual circumstances. Nevertheless, the Sydney Futures Exchange, the medium-sized Australian exchange which announced last year that it would abandon open outcry for an all-electronic trading system, has offered a benchmark, forecasting that the move will cut expenses by about 40 per cent.

Automation of trading systems is not the only way to take out cost. By setting up alliances, exchanges can give each other, and their members, access to a broader range of products, thus potentially boosting trading volumes and spreading overheads.

This was part of the rationale behind last week's link between the CBOT and Eurex, the all-electronic exchange that will come into being later this year when DTB and Switzerland's Sofex merge. Member firms will have

access to both exchanges' products, although orders emanating from Eurex during CBOT's trading day will still be routed through the Chicago pits.

Neither CBOT nor the CME would detail savings expected from their intended common clearing system, but both confirmed they should run into millions of dollars.

So perhaps the biggest question hanging over the Boca conference was not whether, but how quickly, the futures industry would change.

In Europe, most insiders think consolidation will happen very fast in financial products, simply because of the immediacy of monetary union and exchanges' desire to be seen to be offering "benchmark" products. "An electronic shoot-out" is how one trader in Boca described the months ahead.

Not everyone sees themselves joining this frenzy. David King, head of the London Metal Exchange, points out that the LME has a commanding 90 per cent share of business in the markets in which it specialises. With limited competition in sight, it will make technology changes "when the time is right".

The pace of change is also affected by the structure and governance of specific exchanges. In Sydney, the decision to make a direct transition from open outcry to electronic trading early in 1999 was made far easier by the fact that the exchange is owned by 27 member firms, most of them leading investment banks and brokerage houses.

But it seems that Macau has turned down an application to register the Varyag as a site for hotel, business and amusement facilities. In any case, Macau's harbour is not very deep and getting the carrier in might prove tricky.

There are some jitters in the region that the Varyag could end up in the Chinese fleet after Macau returns to Chinese rule next year. Ukraine says the sale contract forbids military use and in any case the purchase of a rusting hulk seems an odd way to boost Chinese seapower.

So is it to be boogie nights or bombers for the Varyag? Should be plenty of room for both.

Tender trap

One day in 1875, a fire station in Winnipeg burned down. The Canadian city built a new one, which shared the same fate in 1903. The third version still stands and has been chosen as the city's firefighting museum. But the project will prove costly - it doesn't meet fire safety standards.

OBSERVER

Caravan parks in Kampala

When US presidents hit the road, logistics seem every bit as important as politics.

There are sound political reasons for Uganda being one of the key stops on Bill Clinton's six-nation African tour, which starts today. President Yoweri Museveni has been dubbed "the donor's darling" for his reform programme. But Kampala has another advantage. In Clinton's wake are 800 or so advisers, security personnel, journalists, congressmen, senators and general hangers-on: the city is one of the few capitals in Africa with enough hotel space.

Museveni also proved his organisational abilities when he hosted a January meeting between the World Bank and regional presidents; and he charmed US secretary of state Madeleine Albright and Hillary Clinton when they dropped in. As one Western diplomat put it: "He's proved he can give good meetings".

Kampala, one of Africa's more pleasing capitals, is having a vigorous spring-clean ahead of Clinton's arrival tomorrow. The grass is getting a short-back-and-sides, pavements are being rebuilt, rubbish collected and street children discreetly ushered away. First Lady Janet Museveni has posed, broadly in hand, with a couple of ministers to encourage people to keep sweeping.

Her husband is doing his own clean-up - he's off to the north to ensure that Lord's Resistance Army

rebels keep a low profile for the next few days. One of the LRA's murderous raids last night gave the impression that Museveni is not in full control of the country.

Lining up

Gather Canada's Liberal party members in one place and talk inevitably turns to the tricky question of succession. Conventional wisdom has it that prime minister Jean Chrétien will retire at the end of his second mandate in 2002. But the popular prime minister, now 64, raised a few eyebrows at the party's leadership convention over the weekend when he hinted he might run for a third term.

Needless to say, a host of cabinet members are eyeing the top spot, but can't quite bring themselves to say so. Leadership contenders refuse to address the issue, stating simply that the job is not open.

Finance minister Paul Martin, who is widely regarded as the most likely successor, says he'd welcome a third Chrétien mandate because the two politicians make such a great team. Martin was heard saying his ambition "is to be finance minister forever". Unless, of course, his country needs him.

Standard stuff

Alexander Au Siu-kee's abrupt departure from Hong Kong Bank has been whipped up a storm of speculation over what made him leave one of Hong Kong's most august banking institutions, not to mention its

celebrated executive dining rooms.

But Au's move has also set the tongues wagging about the succession stakes at Standard Chartered, which he's joining as executive director in charge of government relations and external affairs. Standard Chartered operates a retirement age of 60 for executives; chief executive Malcolm Williamson is 59 but with chairman Patrick Gillingham in place until 2000, the limit is unlikely to be relaxed.

Other senior directors such as finance chief Peter Wood and David Moir, the Singapore-based director of corporate banking, are in their fifties. So the hot money's been on two 40-something ex-Citibankers, Philippe Pallat and Rana Talwar. The bookies aren't adjusting their odds because of Au's arrival. Although he was chief executive in his previous job, Hang Seng is a fairly local institution - arguably kept so by its masters at HSBC. While the impressive Frenchman has driven the expansion of Standard Chartered's consumer banking business, Talwar was Pallat's boss at Citibank and may have a broader strategic view of the bank.

Au could replace whoever becomes chief executive. Or he might return to Hong Kong and replace Asia region boss Mervyn Davies if he replaces Moir in Singapore. Never a dull moment...

Carrier bagged

So why exactly does a Macau leisure company want a hulking great aircraft carrier? Ukraine says it's

clutching a \$20m cheque in exchange for the half-built 33,500-tonne Varyag - a useful bonus for a country where things are so tight that ministers have been told to cut down on foreign travel.

The collapse of the Soviet Union cut off funds to complete the Varyag and she's been rusting away since 1992 while alternative uses, such as a satellite launch pad, were dreamed up and discarded. Ukraine says it's being sold as a disco and amusement park.

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Financial Times

100 years ago

France Shields its Farmers Paris, 22nd March. The Senate to-day discussed the Bill raising the Customs duty on pigs, pork fresh and salted, lard and other pig products. Mr. Stieglitz moved an amendment to Clause 1 lowering the general tariff from 40 to 25 francs and the minimum tariff from 25 francs to 5 francs. He thought that the additional tax on lard would bear very hardly on the working classes, and also feared that the measure might provoke reprisals from foreign countries, especially the United States.

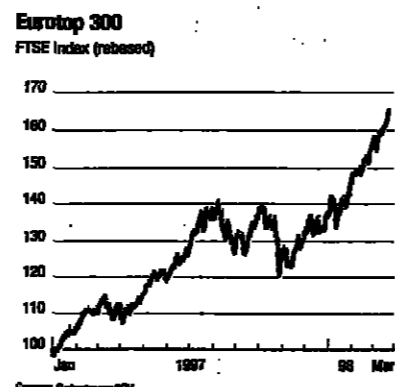
50 years ago

U.S. Car Output Drops United States motor vehicle output in the first week in March fell sharply to 103,265 units from 114,880 units in the previous week. A large proportion of the decline was due to a drop in General Motors' output owing to a shortage of sheet steel. Figures issued of new registrations in the U.S. in 1947 show that the year's total for passenger cars was 3,167,231 compared with 1,815,196 in 1946. British car registrations in 1947 were only 145,000.

THE LEX COLUMN

Opec's prospects

In light of yesterday's agreement to production cuts, recent reports of Opec's death appear exaggerated. Signs that some sort of order is returning to the cartel should help boost the oil price from its recent nine-year lows. An agreement between Venezuela and Saudi Arabia over production volumes will allay concerns that raising back the major quota busters would require protracted economic torture of those with weaker public finances. Removing some 1.2m barrels per day from production will not alone eliminate current oversupply. But so long as Venezuelan and Nigerian quota-busting is reined in, the oil price should rise to reach a more stable long-term price of around \$15-\$16.



US takeovers

Even though mergers and acquisitions volumes are at unprecedented levels, the rules governing US bids and deals could still be improved. The problem centres on hostile takeovers and the array of defences, such as dilutive poison pills, lock-outs or staggered boards, which companies routinely put in place. In some instances these can be overcome by a determined bidder, as Cendant proved in its bid for American Bankers Insurance. But often it takes a lengthy court case, like the 10-month battle for ITT, with no guarantee of a fair outcome. And occasionally, the prospect of a long fight scares a bidder off altogether. Computer Associates dropped its offer for Computer Sciences for this very reason.

One way of tidying up this system might be to introduce a uniform takeover code on the lines of the UK, to provide clear, universal ground rules. That would circumvent the need for endless court cases and put existing management and bidder on an equal footing, forcing both sides to put their case directly to shareholders. Alternately, Congress could beef up the Williams Act - passed in the 1960s to regulate tender offers - by incorporating some of the UK code's provisions.

There is little pressure for such a move at present, given the healthy level of M&A. And it is hard to argue that US shareholders are being systematically short-changed under the present rules. But as capital markets open up around the world, surely the largest one in the world should be at pains to ensure it is as transparent and fair as possible.

European equity issues

So much for shareholder value. As continental bourses scale new heights, signs abound that European companies cannot kick the bad old habit of raising equity on the back of a soaring share price. A welter of European blue chips has lately announced plans for capital increases, among them Volkswagen, BMW, Mannesmann, Lafarge, Cap Gemini and Telefonica. Few have offered their shareholders more than vague indications as to how their cash will be used. Since shareholders can face substantial dilution and value leakage if they do not subscribe to what are often discounted issues, this is a practice companies should avoid.

Sure, there can be mitigating circumstances. In some rapidly consolidating industries, there will be rare situations which demand rapid deployment of cash. But on the whole, the expectation that shareholders should simply take it on trust that managements will later be able to identify value-creating uses for their capital is antediluvian. Far better than tying up expensive shareholders' equity in low-returning cash is to raise capital only once there is a good story to sell investors. And if that is the case, selling the shares at a discount should not be necessary.

Yakult

Time was when Yakult was associated with little old Japanese ladies selling health drinks door-to-door. It turns out the company was peddling an altogether more potent brew, dabbling in various

derivative instruments which helped it run up an \$800m loss. All this dates back to the late 1980s bubble years; cheap equity seduced Japanese companies not only into buying trophy real estate and impressionist paintings, but to putting on the stock market with "tokkin" funds. When the market collapsed, most of these investments went sour.

Many companies faced up to their losses long ago. But like a true gambler, Yakult sought to escape by embracing more risk. For investors, the worrying issue is how many other Japanese companies are nursing dark secrets? And how was Yakult able to hide its problem for so long? It is difficult to be sanguine. Yakult follows in a long tradition of hidden losses which in recent years has included Daiwa Bank and Yamachi Securities. It is a grim reminder that, while sorting out the banking system and kick-starting the economy may be the priorities now, Japan's problems go much deeper.

Next month's Big Bang is supposed to usher in a new era of "free, fair and global" markets. But the Yakult episode shows that until Japan has better accounting and disclosure practices, fairness remains a distant aspiration. As for the overall aim of having Tokyo catch up with Wall Street and the City of London, there is clearly a very long way to go.

CIC

The final battle for control of CIC, one of France's largest banking networks, is about to be fought. A healthy field - four French banks and the Dutch ABN Amro - promises a hot auction for this subsidiary of the state-owned insurer GAN. The spoils should go to the highest bidder, as required by the European Commission when approving FF24bn state aid for GAN. But political factors may damp the bidding.

Attempts to protect CIC's regional structure wrecked efforts to sell CIC in 1996. This time the government has said the buyer should retain the decentralised structure and protect employment. These are profit- and price-inhibiting restrictions, hence Moody's warning that the buyer risked a credit downgrade. Despite the popularity of "Franco-French" solutions, ABN Amro is favoured; it has few overlaps and thus less scope for job-shedding. Domestic bidders are claiming to be arm's length managers.

WATCHDOG HOPES PRINCIPLES WILL PREVENT BARINGS-STYLE DISASTERS

Securities regulators issue guidelines for risk control

By George Graham in London

International securities regulators will today publish new guidelines for securities companies and their supervisory bodies on managing and controlling risk in an attempt to avoid disasters such as the collapse of Barings, the UK investment bank.

The guidelines, drawn up by the International Organisation of Securities Commissions (Iosco), set out 12 principles for ensuring that investment banks and brokers have installed strong control systems and checking their work.

Iosco officials hope the principles will serve as benchmarks by which companies and regulatory authorities can measure their own approaches to risk management.

The guidelines follow a string of scandals, ranging from the Barings failure in 1995 to the \$1bn of bond trading losses unearthed the same year at Japan's Daiwa Bank.

"Over the last few years, there have been some pretty embarrassing situations in most major jurisdictions, and all of these have really come down to the failure of controls," said Richard Britton, head of prudential supervision at the UK Financial Services Authority and chairman of the Iosco working party.

The guidelines urge securities firms to analyse the risks they are running and set up an appropriate control structure to manage this risk. This should include standard precautions such as keeping internal audit independent of the trading and revenue side of the business and segregating front office and back office responsibilities.

"Segregation of duties is necessary to reduce the opportunities to allow one person to be in a position to both create and conceal errors in the normal course of business," the report says.

The report runs over ground

that has been already covered by a number of auditing firms and industry taskforces, but the official Iosco stamp is expected to give it greater force - not least in encouraging securities regulators in smaller countries to raise their standards.

"It's not the originality, it's the source," said Mr Britton. "It's a declaratory statement from some of the world's major securities regulators about how we think you should manage things."

The report says supervisory bodies should not be shy of stepping in to set detailed risk control requirements for firms that have fallen below acceptable standards, but should normally stick to general and flexible guidance.

"Supervisors have to avoid being sucked into taking away from management its responsibility to take decisions," Mr Britton said.

French right faces new crisis as Le Pen demands support

By Andrew Jack in Paris

France's rightwing political parties face a new crisis after the leader of the extreme-right National Front demanded their support at the weekend in his attempt to take charge of one of the largest regional assemblies.

Jean-Marie Le Pen, founder and leader of the National Front, said he expected the centre-right UDF and RPR parties to support his candidature as president of the Provence-Alpes-Côte d'Azur assembly, in Marseilles, in exchange for his support for their candidates in the Ile-de-France region.

He was speaking ahead of voting today in at least four regional councils which failed to agree on a president at the end of last week, and in which the balance of power lies in the hands of the National Front. This gives the Front one of the strongest bargaining positions it has ever held.

Five senior members of the centre-right UDF alliance, including Charles Millon, the former defence minister in Rhône-Alpes, were



Jean-Marie Le Pen: expected reciprocal backing from centre-right UDF and RPR

electoral to regional presidencies on Friday after accepting the support of members of the National Front.

Most refused to acknowledge publicly that they had formed a formal alliance with the National Front, which had proposed a joint "minimum programme" based on tax cuts, crime reduction and the defence of France's national and regional cultural identities. The Front took care

to exclude from this programme its traditional, highly controversial "France for the French" policies, which opponents say are a veil for xenophobia, racism and anti-Semitism.

The five UDF members were immediately suspended from the party by François Léotard, its leader, who came second to Mr Le Pen in Provence-Alpes-Côte d'Azur. He has firmly rejected any alliance with the National Front.

Another UDF regional assembly president, Jean-François Humbert of Franche-Comté, resigned after it became clear he had been supported by the National Front. Hervé de Charette, the former UDF foreign minister, called on Lionel Jospin, the Socialist prime minister, to withdraw his party's candidate to ensure that Mr Humbert will be re-elected. Divisions between some centre-right regional councillors and their vehemently anti-National Front leadership could lead to a sharp loss in support. Inconclusive results in regional elections this month gave the extreme right more than 15 per cent of the national vote.

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FT WEATHER GUIDE

Europe today

Turkey and eastern Greece will have thunderstorms with snow over the northern mountains. An area from the Balkans to Germany will be showery and Russia will have steady snow. The Baltic States and eastern Scandinavia will be dry with plenty of sun but rain will move into Norway and Denmark. Western Europe will be cloudy with light rain but will turn heavy over northern Italy with thunderstorms developing. The Balearics and the northern Iberian Peninsula may have showers but most parts will stay sunny.

Five-day forecast

The south-east will be cold but dry. However, heavy rain and thunderstorms over Italy will spread eastwards again by midweek and it will stay cold. Central and eastern Europe will be cold but showers will die away. Rain in the Atlantic will slowly spread across north-west Europe.



TODAY'S TEMPERATURES

Moscow	8	Clear	27
Calcutta	28	Cloudy	10
Bangkok	30	Fair	35
Bombay	30	Sunny	12
Calcutta	30	Sunny	12
Chennai	30	Sunny	12
Delhi	30	Sunny	12
Dhaka	30	Sunny	12
Guwahati	30	Sunny	12
Hyderabad	30	Sunny	12
Kolkata	30	Sunny	12
Madras	30	Sunny	12
Mumbai	30	Sunny	12
New Delhi	30	Sunny	12
Patna	30	Sunny	12
Ranchi	30	Sunny	12
Srinagar	30	Sunny	12
Thiruvananthapuram	30	Sunny	12
Varanasi	30	Sunny	12
Yamunotsar	30	Sunny	12

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FINANCIAL TIMES COMPANIES & MARKETS

MONDAY MARCH 23 1998

Week 13



INSIDE

Roche shows signs of spluttering

Swiss drugs group Roche is regarded as the Rolls-Royce of the pharmaceutical world. But a splutter has replaced the purr of Roche's engine. The company is likely to report a fall in profits. Page 21

Dieter Vogel to quit Thyssen

Dieter Vogel (left) will resign as chairman of Thyssen, the German steel company, by the end of April. Mr Vogel had failed to win the top post in the group to be formed from the merger of Thyssen with fellow German steel group Krupp. Thyssen shareholders fear the company might be valued at less than its full weight. Page 20

Important week ahead for the yen

Traders will weigh up Japan's latest economic stimulus package. It is expected to be worth ¥10,000bn-¥15,000bn (\$77bn-\$115bn), but if it is smaller the yen could drop from its already low rate of just below ¥130 to the dollar. The week's most significant economic figures are arguably US personal income data for February, to be released on Friday. Page 25

Manila stock exchange up 50%

The Philippine Stock Exchange has soared 50 per cent from its January low. Page 20

INTERNATIONAL BONDS

Greece on convergence path

Greece is set to become the next market to see bond yields converge with those of the core European markets after its entry into Europe's exchange rate mechanism last week. Page 22

MARKETS THIS WEEK

New York

Analysts and traders expect continuing strength in the US stock market over the next few days. Page 23

London

The stock market, which won and lost the 6,000 level on the FTSE 100 on Friday, is seen as delicately poised by market dealers. Page 23

Tokyo

The markets are hoping for cuts in corporate tax and income tax to lift consumer spending. Page 23

Frankfurt

The Dax blue chip index rose above 5,000 points on Friday. Analysts expect the rise to continue. Page 23

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Astra may shift more research overseas

Drugs group considers protest over Sweden's high tax and shortage of scientists

By Tim Burt in Stockholm

Astra, the Swedish pharmaceuticals group, may shift large parts of its research and development operations overseas in protest at high income tax and a shortage of scientists in Sweden.

The company, which produces Losac, the world's best-selling prescription drug, is considering switching more of its research activities to the UK and US, where it is investing SKr1.2bn (\$150m) in new laboratories.

Astra's proposals reflect

increasing frustration among some of Sweden's largest companies, which complain that the country's tax burden hampers the recruitment of international managers.

Last week Ericsson, the country's largest exporter, announced it was considering moving its headquarters to London. The telecommunications group cited personal tax levels as one of the reasons.

The Swedish Employers Confederation said a move by Ericsson could lead to an exodus by other companies.

Although moving headquar-

ters would be largely symbolic, the transfer of research and development by companies such as Astra could have a significant impact on jobs in Sweden.

Hakan Mogren, Astra chief executive, said the proposals were linked to the growing difficulty of attracting research scientists to Sweden. "Research and development is crucial to the entire future of Astra, but our tax system is creating real problems in recruiting people from abroad," he added.

Mr Mogren also criticised a

pledge by the Social Democrat government to address taxation of expatriate executives. Under government plans due to be announced, overseas executives on short-term contracts could be offered lower income tax levels.

The Astra chief executive warned it would create a divisive two-tier structure among Swedish and overseas researchers working for the company.

"It would lead to an unhelpful environment in our R&D teams. Instead, we are considering transferring more of our

research outside Sweden," he said.

Although he emphasised that the plan did not reflect lack of ability among Swedish scientists, Mr Mogren warned that too few qualified graduates were emerging from Swedish universities.

Astra, which employs 3,480 scientists in Sweden and 2,630 overseas, is expected to expand its new research centre near Boston, Massachusetts, as part of the programme.

Last autumn, the company said it was investing SKr600m in the first phase of the proj-

ect, employing 70-100 scientists.

The second phase of the site is likely to involve a fourfold increase in the workforce over the next five years.

It is also investing SKr600m to expand its Charnwood research facility at Loughborough in the UK.

That could step up the shift towards overseas R&D at Astra, which has already grown from 20 to 40 per cent.

Since 1994, Astra's R&D spending has increased from 15 per cent to 19 per cent of group turnover.

Carlson founder to step aside at 83 as daughter takes the top job

Travel group aims to double revenues in five years

By Richard Tomkins in New York

If you're going to break through the glass ceiling, it helps to have the right genes.

Carlson Companies, the US travel, hotel and marketing group, is today expected to announce that Marilyn Nelson, its 58-year-old chief operating officer, will take over as chief executive.

The company says the move will make Ms Nelson - eldest daughter of founder Curtis Carlson - the world's top-ranking female chief executive based on size of organisation.

At 83, Mr Carlson, chairman and chief executive, has decided to step back from the day-to-day running of the business.

Carlson Companies - owner of Radisson Worldwide Hotels and the TGI Friday's restaurant chain - has a relatively low profile because it is privately held. But its Carlson Wagonlit Travel business, a joint venture with Accor of

France, is one of the world's biggest travel management companies.

Carlson Marketing, another division, ranks as the world's 18th biggest advertising agency, and the Carlson Hospitality Worldwide division embraces hotels, resorts, restaurants and cruise ships around the world.

Mr Carlson, US born but of Swedish descent, founded the business as the Gold Bond Stamp Company, a trading stamp enterprise, in 1938, and built it up to its present size through diversification and acquisitions.

The company does not divulge profits, but said it has doubled its revenues every five years since 1973. The growth rate rose from \$4.5bn to \$4.9bn, but the figure jumped to \$6.6bn last year.

Carlson said that put Ms Nelson ahead of other female chief executives such as Jill Barad, chairman and chief

executive of Mattel, the US toy company, which had revenues of \$4.8bn last year, and Marjorie Scardino, chief executive of Pearson, the UK media company that owns the Financial Times, which had revenues of \$3.5bn.

Ms Nelson has worked at Carlson Companies since 1989, and was appointed chief operating officer last year. After her promotion to chief executive - expected to be announced during celebrations marking the company's 60th anniversary in Las Vegas today - Mr Carlson will remain chairman.

As so often with company founders, Mr Carlson has shown a reluctance to hand over power.

In 1989, after undergoing heart surgery, he appointed his son-in-law, Edwin "Skip" Gage, chief executive, retaining the chairmanship. Two years later, Mr Gage left to run his own business out of frustration at Mr Carlson's refusal

to let him run the company his own way. Ms Nelson said her objective would be to maintain the company's growth rate, doubling revenues in the next five years.

"We think our global power, the number of transactions and the amount of activity that we have will allow us to get enormous economies of scale," she said. "At the same time, we are going to decentralise those decisions that allow our organisations to be smaller, more agile, and more responsive to the customer."

Another early move will be to create a retirement policy, something the company has not had in the past. This would ensure her successor would not have to wait too long before rising to power.

It is no great secret that her successor will be. Waiting patiently for the inevitable is Ms Nelson's 34-year-old son, Curtis Nelson, currently head of the Carlson Hospitality Worldwide division.



Marilyn Nelson gets ready for a flight aboard a US Air Force F16 jet during celebrations marking the 60th anniversary of Carlson Companies

Shell set to delay North Sea development projects

By Robert Corzine in London

Shell UK, the British arm of the Anglo-Dutch oil company, is expected this week to defer a number of North Sea oil field development projects.

The move reflects the impact of lower oil prices, but has been triggered by the UK government's decision to extend

its review of the offshore fiscal regime.

The government announced last week that the review, which has been under way since last summer, will be extended by a year. Two options in particular - the reimposition of petroleum revenue tax abolished in 1983 and supplementary corporation

tax - are under consideration. Both would have the effect of raising the overall tax levels.

Heinz Rothemann, head of Shell Expro, the Aberdeen-based exploration and development arm of Shell UK, told an industry gathering in Edinburgh at the weekend that the government did not appreciate

the damage to the industry that could stem from its proposals.

He said Shell - one of the top three operators and acreage holders in the North Sea - will not stop developing fields where work was already well under way, such as Shearwater and Schiehallion.

However the company was

looking closely at projects where feasibility studies were being carried out or where developments were in their early stages, especially in areas where there was no infrastructure in place.

Mr Rothemann said "so far the industry is united" around its theme that the government should be encouraging greater

investment in the North Sea and emerging frontier oil areas such as the Atlantic Margin.

The oil industry last week signalled it might make a direct approach to Gordon Brown, chancellor of the exchequer, to ask for tax relief given the 30 per cent fall in the price of crude oil over the past five months.



SIMON DAVIES
GLOBAL INVESTOR

Rating the agencies

Is the Asian contagion finally beginning to infect the industrial, and immensely profitable, international credit rating agencies?

These institutions, which have the power to force investors to sell bonds by shifting a rating below investment grade level, were put on the back foot by the Asian markets' collapse, and are struggling to recover.

Moody's Investors Service and Standard & Poor's had established a powerful near-duopoly in the US, and emerging markets offered enormous potential for widening their sphere of influence.

But their future depends on the credibility of their ratings, and, judging by recent events, credibility may be beginning to wear thin. Moody's recent downgrade of Russia was a case in point. The price of Russia's "Prin" bonds sank in the immediate aftermath of the downgrade but has subsequently moved significantly higher.

Meanwhile, the two most recent downgrades in Indonesia were met with resurgent share and bond prices. And when Greece was put on negative outlook last month, it appeared to have no impact on the roadshow for its sovereign bond issue.

Compare that with last October. When Moody's downgraded the outlook for Hong Kong's banking sector to negative, the local stock market fell 7 per cent.

The arguments against the rating agencies are simple. They are accused of having missed out on the warning signs in south east Asia, and of over-reacting after the market collapse that followed.

Richard Gray, head of emerging markets research at Bank of America, said: "If the rating agencies got it right, I would be out of a job. But they made such a pig's ear of it that my bonus will be much bigger than otherwise." The fact that

the agencies may have made mistakes would not necessarily matter - many companies have vanished in the wake of enthusiastic stockbrokers' "buy" tips without those brokers attracting public opprobrium.

The problem is that the agencies have a power invested in them by the US authorities and regulators or trustees around the world, whereby many investors can invest only in bonds with a certain rating given by a short list of agencies.

Yet the market does not seem to give the weight to these agencies' judgments that such treatment might suggest. Hence Ecuadorian government debt yields are about 175 basis points - or 1.75 per cent - more than Brazil's, despite having the same rating from Moody's.

Indeed, Bank of America estimates that the correlation between the yield spread of emerging market bonds - that is, the gap between the yield of a bond and that of a benchmark - and the rating is

0.54. That means the rating explains little more than half the relative pricing of the bond.

Helene Williamson, director at Foreign & Colonial Management, said: "I don't think fund managers look at a lot at ratings any more. The ratings give you a snapshot of the past, and fund managers are trying to make predictions about the future."

The agencies appear to be caught in no man's land. They have traditionally offered nothing more than a long-term evaluation of sovereign default risk, but they have been under increasing pressure to play a more predictive role in volatile markets.

Moreover, a number of banks and corporate investors were relying on these ratings for significant investment decisions, giving the rating a predictive significance it did not claim. And emerging market sovereign debt is particularly volatile since investors do not know how to respond to the default of a rated sovereign bond, because

there has never been one. One thing that should probably change is the structural position of the credit rating agencies within the financial system. David Beers, managing director of sovereign ratings at S&P, said: "We have never favoured the approach of mandating certain minimum ratings."

Another key issue is whether the rating process for sovereign debt should be developed to include broader measures of market risk in addition to their pure default risk analysis.

The risk is that, by changing the nature of their bond analysis, rating agencies damage their existing and highly profitable business franchise.

Mr Beers said: "Ratings played an important role in the opening up of emerging markets. And like all market participants, we are committed to learning from all episodes of market distress." They will have to start putting recent learning to good use. simon.davies@ft.com

MARKET BUSINESS

This means

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COMPANIES & FINANCE

Analysts indicted by wrong-footing in results season?

Andrew Edgecliffe-Johnson analyses the pattern of share price movements and surprises on company results days

There are about 1800 well-paid investment analysts in the City, each of whom generally scrutinises just one sector of no more than 20 companies. So the chances of those companies wrong-footing the City when they report annual results should surely be minimal – shouldn't they?

However, a Financial Times analysis of share price movements during the current reporting season presents a very different picture. Of the 242 companies which reported annual or half-year results in February, 30 per cent saw share price swings of 5 per cent or more on the day they revealed their figures.

David Schwartz, the stock market historian, was "astonished" by the size of the share price movements. "This is quite an indictment of the analysts," he said. "Despite all the people watching these companies, there is still considerable potential for surprises in their earnings figures."

Companies in the FTSE 100 are pored over by as many as 30 different analysts each, and are generally less prone to surprises than smaller, less commonly-followed stocks. Yet 32 per cent of the largest companies which reported in the month saw their shares marked up or down by at least 5 per cent. No fewer than half saw share price moves of more than 3 per cent – a significant swing when the company's market value is counted in billions of pounds.

The results of larger, better-followed companies are less likely to surprise the market. While no company in the FTSE 100 or FTSE 250 dropped by more than 5 per cent on the day of its results, the swings seen in the Small-Cap sector ranged from a 13 per cent drop to a 32 per cent rise.

The more extreme swings in the large companies were also often explained by more dramatic corporate news than simply the results.

Dalgety, for example, led the FTSE 250 risers with a 17 per cent jump when it announced plans to sell Spillers petfood and its US distribution business, and to return £650m to long-suffering shareholders.

When such distortions are stripped out, clear themes emerge. On balance, investors were pleasantly surprised by company results in February: 55 per cent of the companies' shares rose on the day of the results, and just 26 per cent fell. Analysts may find further consolation in the fact that the remaining 19 per cent saw no share price movement.

The figures also help to explain why the FTSE 250 index has started to make up the ground it had lost to larger stocks.

The average FTSE 250 company's shares rose 2.8 per cent on the day of its figures, compared to a more modest 1.2 per cent advance

in the average FTSE 100 stock.

FTSE 250 companies had spent months in the doldrums because of fears about the twin impact of Asia and the strong pound on the many 'mid-cap' exporters. Such concerns began to ease as the first results came in.

The difference between the two indices also reflects differences between sectors of the market. None of the 11 construction companies which reported last month – including Bryant Group and George Wimpey in the FTSE 250 – fell on the day of its results. The average daily gain was nearly 5 per cent.

The most consistent winners among small and mid-cap stocks were support services firms, which have the twin appeal of strong growth and minimal exposure to sterling. Two FTSE 250 members, Logica and Capita, jumped by 11 per cent and 10 per cent respectively when they announced results.

Smaller computer-related

stocks such as London Bridge Software, Diagonal and Admiral, rose by between seven and nine per cent on the day of their figures.

At the other end of the league table, four of the seven largest one-day falls were registered by small engineers, while drugs groups – ranging from the AIM-listed Oxford Biomedica to medium-sized organisations such as Medeva and Shire Pharmaceuticals – disappointed. Not surprisingly, the sharpest price movements were registered by the smallest companies, whose shares tend to be the least liquid and most easily affected by small trades.

The top ten risers and fallers each included four AIM companies. Three of the four top risers – Euro Sales Finance, Tadpole Technology and Bowness Leisure – have a market value of less than £15m, which sets into context share price rises of between 17 per cent and 40 per cent.

Of the ten worst results-day performers, those whose shares slid by between 8 per cent and 30 per cent on the day, just one is worth more than £50m.

The small-cap stocks fared better as the month progressed, however, while FTSE 100 stocks including Abbey National, General Accident and BG disappointed.

Mr Schwartz, whose analysis of market movements goes back to 1919, spots another unusual feature of the results season movements. "February is not a good month for stock markets in general," he said. Mondays in February are usually particularly bleak, with just a 38 per cent chance that the share prices will rise, compared to 52 per cent on other February days.

Last month was, perhaps, the exception that proves the rule: 63 per cent of the companies which reported on a Monday rose on the results, while just 29 per cent of those who chose Fridays ended up on the day.

Glynwed seeks buyers for bulk metals business

By Andrew Edgecliffe-Johnson

Glynwed, the engineering group behind Aga cookers, has begun looking for buyers for its commodity metals businesses and will this week signal the start of an auction which could raise between £300m and £400m.

The two metals divisions – distribution and processing – account for half of Glynwed's sales and profits. The company said yesterday that, although no large disposals are imminent, a range of strategic options has been under review, and it had reached "implementation mode," after testing the market for the commodity-focused parts of its metals portfolio.

Disposals are most likely in metal distribution, the division which buys stainless steel, aluminium and yellow metals in bulk and then sells them in smaller packages to the end-customer.

The division's sensitivity to fluctuations in metals prices knocked its profits from £21.6m to £12m between 1995 and 1996, on sales of £325m, leaving profit margins at just 3.7 per cent.

British Steel is the largest UK rival to Glynwed in this market, which includes several smaller, regional and specialist companies.

Metal processing, which

converts basic metal into different lengths and thicknesses, made £31.6m profit on £300m sales in 1996, but its European exports have suffered from weak demand and the strong pound.

Glynwed said yesterday that it would be "more open about its strategy" in future.

The company is also expected to give some news about progress in finding a successor to Gareth Davies, who is intending to step down as chairman this year. Analysts at Credit Lyonnais said two months ago that the disposal of the metal distribution business could leave Glynwed vulnerable to a bid.

More recently, Nick Cunningham of Salomon Smith Barney said Glynwed's 7 per cent yield suggested that a dividend cut was possible. The dividend was providing little support for the share price he said, while consuming cash that might be better used for making acquisitions.

Glynwed's acquisition ambitions have been held back in the past by its slow profits growth and poor cash flow.

It is now looking for at least £100m of acquisitions. In the past 18 months it has sold a clutch of non-core businesses, including Wednesbury Tube, the poorly-performing copper tubing group.

The deal will give Waterfall another 27 sites to add to its 45 smelter and pool halls.



Martin Callan of Waterfall at the Pool Shack, Victoria, central London, after potting his new acquisition

Pool hall owners pocket £14m in Radion disposal

By Andrew Edgecliffe-Johnson

The four owners of an Essex-based chain of pool halls will pocket £14m in cash and shares tomorrow, when they announce the sale of Radion to Waterfall Holdings, the AIM-listed leisure group.

The deal will give Waterfall another 27 sites to add to its 45 smelter and pool halls.

and will narrow the gap with its larger listed rival, European Leisure.

Waterfall's chief executive, Martin Callan, said the deal would enhance its earnings; he is now applying for a full market listing.

Radion's operating directors, Henry Gover and Ivan Levene, will join the Waterfall board. Winnie Gover, Mr Gover's wife, will receive

£4m cash and more than 3.1m Waterfall shares, while Mr Levene and his father, Anthony Levene, will share £4.4m in loan notes, £900,000 in cash and almost 2.2m shares.

Radion owns 14 "cue sports" clubs, six health clubs, four bowling alleys, two public houses and a nightclub. Its assets have been valued at £11.5m.

BP plans to buy ICI petrochem plant

By Roger Taylor

British Petroleum is planning to buy Imperial Chemical Industries' petrochemical plant at Wilton, Cleveland, which is up for sale in the last stage of the disposal of ICI's industrial chemicals business.

The sale of the Wilton plant would take the total disposal proceeds to more than £40m.

Bryan Sanderson, BP Chemicals managing director, said the company – which already owns 20 per cent of ICI's Wilton ethylene cracker – would like to buy the remaining 80 per cent rather than see it go to a competitor.

However, ICI is negotiating with other buyers who are prepared to consider buying both the cracker and associated product plants in a single package, which could fetch up to £500m.

Huntsman Corporation, the privately-owned US chemicals group, is understood to be in negotiations. However, Mr Sanderson said BP's 20 per cent stake in the plant gave it some influence over the situation, since ICI is required to get its approval for any disposal.

Analysts said the interest should help ICI get a good price for the assets, which are the last part of its industrial chemicals business to be sold as part of the restructuring begun last year.

ICI began disposing of its industrial chemicals businesses last year after paying £4.9bn for the Unilever specialty chemicals businesses. DuPont bought the largest section, paying \$85m (£1.7bn) for most of ICI's titanium dioxide and polyester operations.

Braitrim stake sold for £50m

By Katherine Campbell, Growing Business Correspondent

Peter Shalson, who in 20 years turned Braitrim from a three-man supplier to the rag trade into a £60m company, has sold around 80 per cent of his equity to Mercury Asset Management's private equity division, in a transaction valued in excess of £50m.

Braitrim customises hangers and labels for the garment industry, and has also branched into packaging for other retail sectors including food.

The business has grown at 30-40 per cent a year for the last few years, and in the year to June 1997 it achieved sales of £45m and profits of £3.5m.

Mr Shalson, 41, said he was selling out because "there are better people than me to be boss of an international company that is going to fly".

The bulk of the consideration goes to Mr Shalson, with a small amount set aside as expansion capital.

The existing management will receive a minority of the equity. MAM has appointed Gus Moore, a former director of Hong Kong Telecom, as chairman.

NEWS DIGEST

PHARMACEUTICALS

SB says board united on Glaxo decision

SmithKline Beecham, the pharmaceuticals group, has tried to end speculation that its board was divided over the decision to end merger talks with Glaxo Wellcome.

"The facts are that the management team is united and the board is rock solid," the company said, in a statement which displayed its board's intention to report a split between non-executive directors and Jan Leachly, the chief executive.

"The board members were unanimous in their reasoning and decision not to proceed with a merger, and that position remains unchanged," the company said. "Any suggestion otherwise has no basis in truth." The company's position was supported by one institutional shareholder yesterday, who said that, when the two board members were asked to explain the collapse of the merger talks, the SmithKline Beecham directors appeared completely united.

"It was a full team, including Sir Peter Walters [non-executive chairman], Jan Leachly, Jean-Pierre Garnier [chief operating officer] and High Collum [finance director]," the shareholder said. "They were very well equipped, and had prepared notes demonstrating the way they believed the Glaxo Wellcome position had changed."

The investor also denied reports that shareholders including Mercury Asset Management, Prudential and Morgan Grenfell had established a committee to examine the failure of the merger or to press the companies to revive their talks. Andrew Edgecliffe-Johnson

PENSIONS

First client for SocGen Asset

SocGen Asset Management has attracted its first pension fund client in less than two months after Devonport Royal Dockyard severed its links with Gartmore, one of the UK's five largest pension fund managers.

Winning a £100m UK equity mandate for the new team – headed by Nicole Horlick, the former Morgan Grenfell fund manager who left in a storm of publicity last year, and John Richards – may surprise in an industry where mandates are awarded after long-term performance. However, pension funds have become increasingly disillusioned with the performance of the largest managers over the past year. One leading consultant said SocGen's win was "hardly surprising given the desperate desire for new managers at the moment".

Many pension funds have started to switch from large "balanced" funds, in which the manager has discretion to invest across asset classes and countries, to more specialist management. The decision by Devonport to reallocate the £250m managed by Gartmore for the past 10 years echoes that trend. As well as SocGen about £75m has been awarded to Legal & General, the index tracking specialists, while a smaller portion has gone to Capital International, the US group, to invest in overseas equities.

Fidelity has been reappointed to a £250m balanced mandate by Devonport.

Gartmore, which has underperformed its peers overall for the past five years, announced a reorganisation of its investment teams last week with a greater separation between fund management, research and client service. It is also to offer a new type of balanced fund which combines index tracking with active management. Jane Martinson

BREWING

Ushers refinances debt

Ushers of Trowbridge has become the latest UK company to refinance its debt through a private placement in the US. The regional brewer is raising \$80m (£48m) to reduce its interest payments and extend its timetable for repayments.

The group's current \$55m debt, of which \$35m has been drawn, was due to renege between 1998 and 2001. The new, unsecured debt – being placed with five institutional investors in the US – has a maturity of ten years, and is repayable in five equal instalments from 2004.

Martin Coles, finance director, said: "We are funding investment in our existing estate from cashflow, but this will provide additional funding for pub acquisitions."

Andrew Edgecliffe-Johnson

SERVICES

Sketchley to consider takeover

The board of Sketchley, the industrial textiles and utility maintenance group, is to meet today to discuss proposals for the sale of its dry cleaning business or a full-blown takeover. Despite more than six months of negotiations, no formal terms have yet been agreed with either Arthur Andersen's corporate finance division, which is representing a group interested in a full takeover, or with NatWest Equity Partners, which has discussed a bid for the dry cleaning division. Both groups are still in discussions with Sketchley. Whatever the outcome of today's board meeting, shareholders face a further vote before final terms can be agreed. Their shares have fallen from 91p to 48p in the past year. The talks have been delayed by the need to ensure that the potential liability of the retail outlets' leases would not bounce back to Sketchley should the buyer run into financial problems. Andrew Edgecliffe-Johnson

MANUFACTURING

UK Safety recommends low bid

UK Safety, the industrial footwear and protective clothing group, has recommended a £1.01m cash offer from Skyfash, a new company set up by Aikman Investment Plan and a management buy-out team. The 21p per share offer represents a 67 per cent discount to the 77p closing price for UK Safety shares on March 19, the last dealing day before the offer. The shares fell 37 per cent after the announcement on Friday dropping 29p to close at 44p. John Newman, chief executive and one of the MBO team, said the offer was recommended "even though it looks like a disadvantage for shareholders" as the company was "struggling under a yoke of debt". Gearing had risen above 400 per cent, and debts of £11.6m against shareholders' funds of £2.7m were "strangling the business". If the offer is accepted, gearing will be reduced to 50 per cent with Aikman's £7.5m investment, and bank support will continue. Joan Gray

BIOTECHNOLOGY

Scotia £50m bond issue

Scotia, the UK biotechnology company, has raised £50m through a convertible bond issue – but only after institutional underwriters took up 80 per cent of the placing. The bonds were offered to shareholders who took up 20.02 per cent of offering by the March 18 closing date. The remainder was placed with institutional investors. The company will use the money to help develop what it regards as its most promising projects: photodynamic therapy, a cancer treatment in which a drug sensitises tumours to light; and Olfra, a food ingredient that appears to reduce appetite.

Biotechnology companies rely on regular fundraising exercises to pay for the research and development of products. Dealing in the bonds is expected to start on March 26. The bonds may be Scotia's shares closed on Friday at 285p, down 21p. The placing was managed by Nomura International, Hoare Govett Corporate Finance, and Robert Fleming. Daniel Green

NOTICE
The United Mexican States
Values Recovery Rights, Series A

NOTICE IS HEREBY GIVEN pursuant to the Fiscal Agency Agreement dated as of March 28, 1990 (the "Agreement") under which the above Rights were issued that the Fiscal Agent has received a Calculation Report for the Payment Date occurring on March 31, 1998 from the International Monetary Fund, as Calculation Agent for the Rights under the Agreement, setting forth the following amounts:

Current Oil Price	US\$	16.4965
Reference Oil Price	US\$	17.6980
Current Oil Revenues	US\$	2,424,460,498
Excess Base Revenues	US\$	123,563,359
Excess Price Revenues	US\$	0

Based upon the Calculation Report the Fiscal Agent has calculated for said Payment Date the following amounts:

Value Recovery Payment	US\$	0
Carryforward Amount	US\$	0

CITIBANK, N.A.
By: Citibank, N.A. as Fiscal Agent
March 20, 1998

A/S Eksportfinans
(Incorporated in the Kingdom of Norway with limited liability)
US\$100,000,000 Senior/Subordinated Notes due 2002

Notice is hereby given that the Rate of Interest has been fixed at 5.5684% and that the interest payable on the relevant interest Payment Date September 23, 1998 against Coupon No. 12 in respect of \$10,000 Nominal of the Notes will be \$284.50 and in respect of \$100,000 Nominal of the Notes will be \$2,845.00.

March 23, 1998, London
By: Citibank, N.A. (Corporate Agency & Trust), Agent Bank **CITIBANK**

THE STARS PROGRAMME
STARS 1 PLC
£475,000,000 Class A Floating Rate
Mortgage Backed Securities 2029

Notice is hereby given that the Principal outstanding on the subject issue for the interest period March 27, 1998 to June 29, 1998 will be \$127,975,000.00.

The Principal amount outstanding for each note is \$4,450.00.

March 24, 1997, London
By: Citibank, N.A. (Corporate Agency & Trust), Agent Bank **CITIBANK**

Prices for electricity determined for the purposes of the electricity trading and settlement arrangements in England and Wales.

Hour	Period	Price	Price	Price	Price
0000	0000-0100	10.98	11.08	11.08	0.00
0100	0100-0200	36.23	36.23	36.23	1.53
0200	0200-0300	36.23	36.23	36.23	1.53
0300	0300-0400	36.23	36.23	36.23	1.53
0400	0400-0500	36.23	36.23	36.23	1.53
0500	0500-0600	36.23	36.23	36.23	1.53
0600	0600-0700	36.23	36.23	36.23	1.53
0700	0700-0800	36.23	36.23	36.23	1.53
0800	0800-0900	36.23	36.23	36.23	1.53
0900	0900-1000	36.23	36.23	36.23	1.53
1000	1000-1100	36.23	36.23	36.23	1.53
1100	1100-1200	36.23	36.23	36.23	1.53
1200	1200-1300	36.23	36.23	36.23	1.53
1300	1300-1400	36.23	36.23	36.23	1.53
1400	1400-1500	36.23	36.23	36.23	1.53
1500	1500-1600	36.23	36.23	36.23	1.53
1600	1600-1700	36.23	36.23	36.23	1.53
1700	1700-1800	36.23	36.23	36.23	1.53
1800	1800-1900	36.23	36.23	36.23	1.53
1900	1900-2000	36.23	36.23	36.23	1.53
2000	2000-2100	36.23	36.23	36.23	1.53
2100	2100-2200	36.23	36.23	36.23	1.53
2200	2200-2300	36.23	36.23	36.23	1.53
2300	2300-2400	36.23	36.23	36.23	1.53
2400	2400-0000	36.23	36.23	36.23	1.53

BIRMINGHAM MIDDLESBROUGH BUILDING SOCIETY
£200,000,000
Floating Rate Notes due 2000

For the three months from 19th March 1998 to 18th June 1998 inclusive the Notes will carry an interest rate of 7.625% per annum.

The interest amount payable per £10,000 will be £192.19 on 19th June 1998.

AGENT BANK:
BARCLAYS

U.S. \$75,000,000
Moscow Narodny Finance B.V.
Guaranteed Floating Rate Notes
due 2008

For the interest period from March 23, 1998 to June 22, 1998 the Rate has been determined at 0.0875% per annum. The interest payable on the relevant interest payment date, June 22, 1998 will be U.S. \$1,890.45 per U.S. \$2,000,000 Note.

By: The Chase Manhattan Bank, London, Agent Bank **CHASE**
March 23, 1998

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27 March 1998

17-11-95

says board united
Glaxo decision



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COMPANIES & FINANCE

GERMAN GROUP LINKED WITH RANDOM HOUSE

Bertelsmann silent on talk of US buy

By Frederick Sidemann in Berlin and Ralph Alden in Bonn

Bertelsmann, the world's third biggest media company, said yesterday it would today be making an "important" strategic announcement, but the German group declined to comment on speculation it was about to fulfil its ambition of acquiring a US publishing house.

In a statement, Bertelsmann described a German media report that it was about to buy Random House, of the US, was "one of many" speculative ideas that had been circulated ahead of a press conference in Munich today. But it said work was continuing ahead of the announcement and nothing would be said until this afternoon. The conference will take place shortly after the start of business in New York.

Similarly, Bertelsmann refused to comment on suggestions it might announce a co-operation agreement with Générale des Baux, the French conglomerate that this month absorbed Havas, the French media company. Another possibility is that Bertelsmann is about to revise plans for a German digital pay-television venture in conjunction with the Kirch media group. The venture has run into problems winning clearance from

European Union competition authorities.

Bertelsmann is based in Gütersloh, in north Germany, but many of its European music, publishing and entertainment businesses are based in Munich, in the south.

The group has made no secret of its wish to acquire a US publishing house to add to its existing book publishing activities in the US, which include Doubleday and Bantam.

Other US companies suggested as possible Bertelsmann takeover targets have included McGraw-Hill, the US business and educational publisher, and Houghton Mifflin, the general trade publisher.

A significant acquisition would mark another stage in the privately-owned Bertelsmann group's evolution from a business based on book clubs and general publishing into a wide-ranging international entertainment and media concern.

Thomas Middelhoff, board member responsible for multimedia activities who was last summer named as chief executive designate, is currently working for Bertelsmann in the US. He will succeed Mark Wörsner, who will make today's announcement.

Bertelsmann has turnover of about DM25bn (\$13.7bn) a year.

Monument poised for deal to export oil via Iran

By Virginia Marsh

Monument Oil & Gas, the UK independent exploration company, is today expected to announce an innovative and controversial deal that will involve the export of oil through Iran.

The deal - thought to be the first of its kind involving a western oil company - is likely to irritate the US government, which forbids US companies from trading with or investing in Iran.

However, the move is a sign of the growing determination of western oil companies to do business with Iran, in spite of opposition from the US.

Under pressure from Congress, the Clinton administration is considering sanctions against Total, the French oil group, and its partners because they have signed a \$2bn gas investment contract with Iran.

Monument, whose chief executive is Tim Eggar, a former Conservative energy minister, is believed to have agreed with the state-owned National Iranian Oil Company to supply oil from its interests in Turkmenistan to Iranian refineries in the north of the country.

In return, the UK group will receive Iranian oil in the Gulf. Most of Iran's oil is produced in the south of the country, which is divided from the more populated north by formidable mountain ranges, complicating oil transportation.

Monument is also set to announce that it has made its first exports of Turkmen oil - some 4,700 tonnes - via an alternative route across the Caspian Sea to Baku, the Azerbaijan port.

The Iranian arrangement is thought to be more cost-effective, but the company has been keen to have alternative export routes.

In addition, Mobil, its US partner in Turkmenistan, will only be able to use the Azerbaijan route because of US sanctions.

Monument has established a strong position in Turkmenistan, but there had been question marks over its ability to export from the former Soviet republic.

The company is redeveloping the country's Nebit Dag oilfield and expects to lift its consortium's local production to 20,000 barrels of oil a day by the end of the year, up from about 6,500 barrels a day at present.

Until now, energy-rich Turkmenistan has made few oil exports. It has recently fallen heavily into debt after gas exports to Russia were stopped because of disputes on tariffs.

However, it recently inaugurated a \$200m gas pipeline to Iran that will enable it to supply power stations there.

Royal Dutch/Shell is studying the feasibility of a gas export line that would run from the big gas fields in eastern Turkmenistan to Turkey via northern Iran.

significant capital gains.

Mr De Benedetti had become increasingly concerned over Mr Giribaldi's role on his companies and decided to pre-empt any hostile moves by acquiring additional shares in his companies to ensure himself 51 per cent control.

Mr Giribaldi started building his stakes in the De Benedetti companies when Mr De Benedetti was under heavy pressure as a result of the deep crisis that two years ago hit Olivetti, the Italian information technology and telecommunications

group. Mr De Benedetti was subsequently forced to resign from Olivetti and also announced his intention of shedding his stake in the company.

Mr De Benedetti had been puzzled by Mr Giribaldi's motives in building up stakes in his companies. In turn, the raid increased the market's interest in the two companies contributing to the rise in their share prices.

Mr Giribaldi said he had sold his stakes in the companies cashing in a capital gain of between £200bn and £250bn (\$110m-\$139m).

Roche shows signs of spluttering

Growth is slowing and concerns are growing about the Swiss drug group's strategy, reports William Hall



If Roche made cars rather than drugs, it would be regarded as the Rolls-Royce of the pharmaceutical world.

Over the past decade its earnings have grown at a compound rate of 25 per cent a year, the price of its non-voting securities has risen from less than SF900 to more than SF16,000, and it has one of the highest research spends and success rates in the global drug industry.

However, the steady purr of Roche's normally reliable pharmaceutical engine has been replaced by an annoying splutter.

Roche's underlying sales growth in 1997 fell from 10 per cent to 4 per cent. This week it is likely to report its first fall in profits for more than a decade because of a need to take a big restructuring charge to cover its SF15bn (\$10bn) acquisition of Boehringer Mannheim, a private German pharmaceutical company.

In addition, several of Roche's potential new "blockbuster" drugs, which were supposed to revive its flagging sales growth, have run into serious problems.

The biggest disappointment has been Xenical, the first of a new kind of anti-obesity drugs aimed at the \$300m-a-year US market for weight loss drugs and diet pills.

Last May a US Food and Drug Administration panel unanimously approved the drug. But just over a week ago, the same panel changed its mind and split down the

middle on whether to recommend the drug because of fears about breast cancer in women.

The FDA has overruled its independent advisers before, and Roche appears confident that it will get the go-ahead by the FDA's May deadline. However, it may well be forced to insert strong warnings on the product label which could damage its sales potential.

It has already had to relabel Posicor, another potential wonder drug, after it was found to be poorly compatible with other cholesterol-reducing heart drugs.

Meanwhile, analysts question Roche's decision to use most of its SF15bn cash pile over the past year to acquire Boehringer Mannheim, a diagnostics company, and

Tastemaker, a US food and beverage additives company. The former makes Roche number one in diagnosing people's illnesses, which it believes is an increasingly important adjunct to the drug industry; Tastemaker makes it undisputed world leader in fragrances and flavours. But both are much lower margin businesses than pharmaceuticals.

Many analysts believe that the money might have been spent in the pharmaceutical industry, where Roche is starting to slip behind the industry leaders.

Two years ago it ranked as the world's 11th biggest company by market capitalisation and Europe's second biggest. By the end of last year it had slipped to number 17 in the world league tables and number five in Europe.

Its shares underperformed the Swiss market in 1996 and 1997.

The news dribbling out of Roche's Basle headquarters over the past few months has been almost universally negative.

Last week, Goldman Sachs took Roche off its global priority list and Merrill Lynch cut its "buy" recommendation. Salomon Brothers has reduced its 1998 earnings forecast for Roche, to SF7454 a share, which is virtually unchanged from what Roche earned in 1996.

Salomon is at the low end of analysts' 1998 forecasts. But other analysts are downgrading their longer-term growth projections as they digest Roche's recent announcements.

Mark Tracey of Goldman Sachs, who has turned neutral on the whole pharmaceutical industry, has reduced his five-year forecast for Roche's top-line sales growth from 9 per cent to 7.5 per cent. He is also less optimistic about margins.

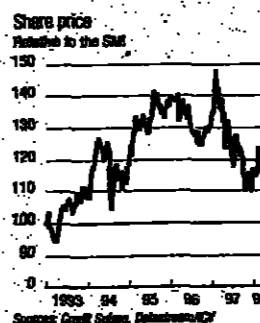
Roche has already warned that acquisition-related charges will have a "significant negative effect" on its 1997 results and analysts expect profits to be depressed by a restructuring charge of anywhere between SF750m and SF1.5bn. Bank Sarasin in Basle expects a SF900m after-tax restructuring provision which would result in a 17 per cent fall in Roche's 1997 net income to SF3.5bn.

The size of the charge is far from the most pressing question for the investment analysts who meet Franz Humer, Roche's new chief executive, on April 8.

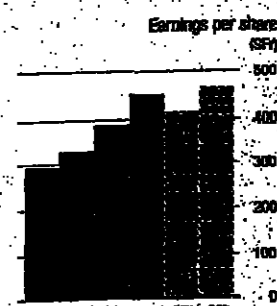
They want reassurance about the wisdom and rationale of Roche's quantum leap in diagnostics; what

Roche: slowing growth

Dr Franz Humer, chief executive



Share price (Swiss francs)



Earnings per share (Swiss francs)

steps are being taken to speed up the transfer of new ideas from Roche's research laboratories into commercially successful products; and whether Roche's acquisition of Boehringer Mannheim means that it has closed its mind to further acquisitions in the global pharmaceutical industry.

If Roche were to make a big move it would have to abolish its antiquated capital structure, which allows the founding families to control the company even though they only account for 13 per cent of its market capitalisation.

Their shadowy influence may already be on the wane. Paul Sacber, the most influential figure, turns 92 next month, and recently a near 5 per cent stake in Roche's

tightly held voting shares changed hands amid speculation that it might have been bought by Kurt Engelhorn, 71, who sold Boehringer Mannheim to Roche.

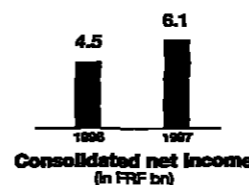
Roche, unlike Novartis, which was created from the merger of Sandoz and Ciba, has never gone out of its way to court the international investment community.

Its record spoke for itself and the shareholders of the founding families assured its independence.

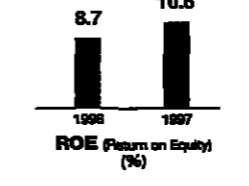
However, recent events suggest that it may soon be forced to drop its traditional Swiss-German reserve, especially if, as many analysts suspect, it decides to signal its willingness to join the global merger and acquisition wars.

SOCIÉTÉ GÉNÉRALE GROUP 1997 annual results

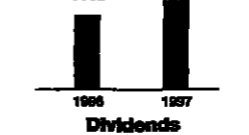
Rise in net income to FRF 6.1 bn (+34%) and in net earnings per share (+22%)



Consolidated net income (in FRF bn)



ROE (Return on Equity) (%)



Dividends (in FRF)

Provisions in the amount of FRF 4.9bn to cover risks in South-East Asia

Coverage of risks in South-East Asia is broken down as follows:

• FRF 1.9bn of provisions for identified risks and asset depreciation: credit risk (FRF 1bn), depreciation of securities and goodwill (FRF 0.9bn).

• FRF 3bn of prudential general provisions: credit risk (FRF 2.5bn) and capital market risk (FRF 0.5bn).

Consolidated net income up 34%

• Net banking income reached FRF 54.1bn, up 12% when adjusted for changes in Group structure, which reflects the growth in activity.

• Net allocation to provisions stood at FRF 7.6bn in 1997 (of which FRF 3.5bn relating to Asian commitments), against FRF 4.8bn in 1996.

• The very high level of income from long-term investments (FRF 3.4bn) reflects the continued reduction of the shareholding portfolio. At the end of December 1997, unrealised capital gains reached a record level of FRF 12bn, against FRF 5.3bn at 31 December 1996.

In total, net income amounted to FRF 6.1bn in 1997, up 29% when adjusted for changes in Group structure, net earnings per share came out at FRF 63.40, an increase of 22%.

Group's capital base reinforced

At 31 December 1997, Group shareholders' equity stood at FRF 63.4bn, an increase of FRF 7.7bn in relation to 1996.

Dividend up 20%

The dividend proposed by the board of directors at the Annual Shareholders' Meeting is FRF 21 per share (FRF 31.5 including the tax credit) against FRF 17.5 in 1996, corresponding to a distribution ratio of 33.9% of consolidated net income.

"The results for the 1997 financial year confirm the improvement in the Group's core profitability and the strengthening of its capital base, as well as reflecting the validity of Société Générale's strategy of developing along three axes: retail banking in France, commercial and investment banking and asset management."

Daniel Bouton
Chairman and CEO



For further information, please consult our Investor Relations department in Paris on +33 1 42 14 62 18

Giribaldi sells stakes in De Benedetti companies

By Paul Bettis in Milan

Luigi Giribaldi, the Italian financier based in Monte Carlo, has sold his stakes in Cir and Cofide, ending months of speculation over the future of the two holding companies of Carlo De Benedetti, the former Olivetti chairman.

Mr Giribaldi had accumulated a 20 per cent stake in Cofide, the De Benedetti family holding, and 26 per cent in Cir, the industrial holding controlled by Mr De Benedetti through Cofide. The stakes were sold with

significant capital gains.

Mr De Benedetti had become increasingly concerned over Mr Giribaldi's role on his companies and decided to pre-empt any hostile moves by acquiring additional shares in his companies to ensure himself 51 per cent control.

Mr Giribaldi started building his stakes in the De Benedetti companies when Mr De Benedetti was under heavy pressure as a result of the deep crisis that two years ago hit Olivetti, the Italian information technology and telecommunications

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Emergentes e de Capitais

ING BARINGS

MARKETS WEEK

March 23 - March 29

At Home in Emerging
and Capital Markets

ING BARINGS

NEW YORK

By William Lewis in New York

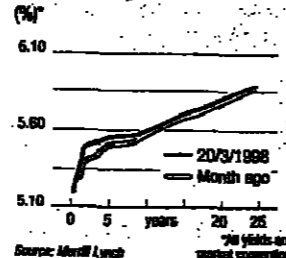
A slow start to the week in terms of company earnings and economic data announcements is leading Wall Street analysts and traders to forecast continuing strength in the US stock market over the next few days.

On Friday the Dow Jones Industrial Average in New York closed above 8,900 for the first time, rising 103.38 points or 1.17 per cent to 8,906.43.

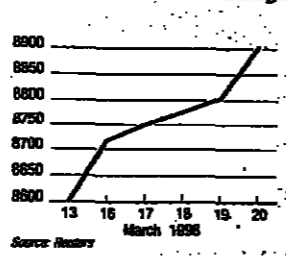
Analysts say that announcements of note are not planned in the US market until Wednesday, but none is expected to cause equity and bond traders any big concerns.

Wednesday sees the publication of February's existing home sales and durable goods reports. In January sales of existing homes rose by 0.7 per cent and analysts are expecting durable goods order growth is expected to have declined by 1 per cent in

Benchmark yield curve (%)



Source: Merrill Lynch



Source: Reuters

February, following January's advance of 1.6 per cent. The weakness in the report is expected to have come from the transportation and machinery sectors, says Donaldson Lufkin & Jenrette, the US investment bank.

LONDON

By Philip Coggan

The London stock market, which won and lost the 6,000 level on the FTSE 100 last Friday, is seen as delicately poised by market dealers.

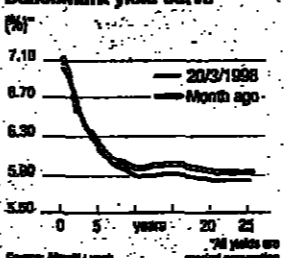
Last week's Budget caused no problems at all for equities; on the contrary, the prospect of a flurry of money coming into the market before the end of the financial year, because of the extension to tax breaks for peeps and tessas, drove shares sharply higher.

Although the FTSE 100 captured the limelight, bursting through 5,900 and then 6,000 in only three days, it was the continuing power displayed by the FTSE 250 and SmallCap indices that caught the eye.

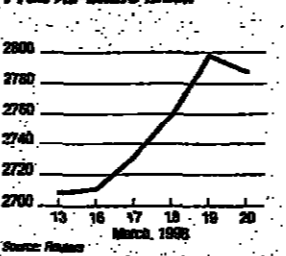
A long list of UK companies report this week, including three FTSE 100 stocks, including Next, Nycomed Amersham and F&O and a host of 250 constituents.

In the UK the market will be scrutinising the trade

Benchmark yield curve (%)



Source: Merrill Lynch



Source: Reuters

figures to be published on Thursday, which bring overall trade numbers for January.

These are expected to come in showing a deficit of £1.1bn, according to the consensus figure compiled by Standard & Poor's MMS, against December's £1.3bn deficit.

FRANKFURT

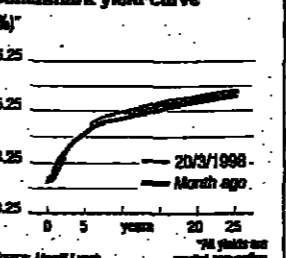
By Andrew Fisher in Frankfurt

As Germany's Dax blue chip index spurred past 5,000 points on Friday, the Frankfurt stock exchange celebrated with a big cake. It did the same last July at 4,000 points, but there are few bets on when the next cake-cutting will take place.

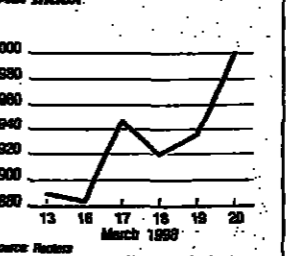
At Friday's close, the Dax was almost 2 per cent higher on the day at 5,045.16, a gain of nearly 18 per cent so far this year. Last week's rise was helped by derivatives trading, but traders and analysts are generally optimistic that the market's rise will continue for a time. Levels of 5,200 and 5,500 are now seen as realistic.

The strong dollar and low interest rates continued to help the market, as did strong earnings statements from companies such as BMW, Volkswagen, Henkel and Krupp. This week, several German corporations - including VW, BASF and Dresdner Bank - will give further details of last year's performance and an

Benchmark yield curve (%)



Source: Merrill Lynch



Source: Reuters

indication of 1998 prospects. Markets will also be able to look ahead to the euro horizon, as the European Commission and the European Monetary Institute - forerunner of the European central bank - both report on Wednesday on membership prospects for currency union.

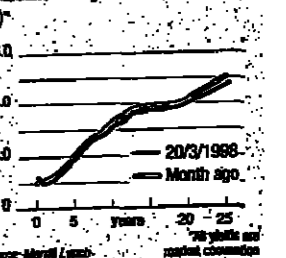
TOKYO

By Paul Abrahams in Tokyo

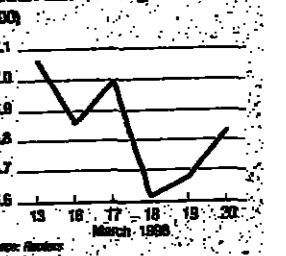
Trading last week was dominated by rumours about the details of the latest government measures to boost the economy. The market will continue to be transfixed by the package until the outline is revealed, probably on Wednesday. The latest leaks from the ruling Liberal Democratic Party suggest it will be about ¥10,000bn and mostly consist of additional public works spending. The markets are hoping for cuts in corporate tax and permanent reductions in income tax to boost lacklustre consumer spending.

Disappointment on the package's size or the absence of significant and timely income tax cuts could hit the equity markets seriously, although bond prices could rise even further. The yield is already at an all time record. LDP policy makers have said they want the Nikkei to reach 18,000 by the March 31 year end. It is currently at 16,890. If 18,000

Benchmark yield curve (%)



Source: Merrill Lynch



Source: Reuters

is achieved, it should mean, in theory, that banks and other businesses with large equity holdings would not have to write off losses on the book value of their stocks. As the year-end approaches the market could also be hit by more bankruptcies and other nasty financial surprises.

COMPANIES DIARY

Schneider sees year-end surge to over FF2bn

Schneider, the French electrical engineering group, will tomorrow report net profit of FF2.2bn-FF2.7bn, up from FF1.32bn in 1996, according to analysts' forecasts. At the beginning of February, Schneider forecast a net profit for 1997 of "at least" FF2.1bn.

Credit Suisse First Boston said full-year sales growth of 11.1 per cent - or 5 per cent once currency factors are excluded - was fuelled by the company's North American activities and made up for sales growth of 1.8 per cent in the French market. Schneider derives around 4 per cent of its earnings from Asia but the region's financial crisis is unlikely to have much impact on the 1997 results, dealers said.

One dealer stated he had lowered his 1998 sales fore-

cast by FF100m to account for any further fall-out from the Asian crisis in this year's figures. He said Schneider's electrical equipment sales in France improved in January but the French government's proposal to reduce the working week to 35 hours created uncertainties over the sustainability of this improvement. Elsewhere in Europe, Schneider will benefit from a gradual economic recovery, he said. *AFX-News, Paris*

TUESDAY

● Nycomed Amersham, the drugs company that a year ago was three companies, will be revealing an appropriately complicated set of results. The business has been created by the merger

of Norway's Nycomed, the UK's Amersham International and Sweden's Pharmacia Biotech. The main issue for the company is whether growth in new products has enough to offset probable lower sales in the US and the strength of sterling. IBES, the estimates service, says estimates range from £32m to £112m (£87m) with a mean figure of £92m.

● Is the game starting to move on at Britannic Assurance, analysts will ask when the life company reports its final. The group, whose shares have risen by more than a third since September, has been through a long period of restructuring and consolidation but has always been fancied as a buyer of another home services insurer. The company has already projected a 20 per cent rise in its full-year dividend to 33.5p. A consensus of estimates from First Call suggests a pre-tax operating

figure of £143.5m (£247m) up from £84.2m.

● Iceland the frozen food retailer, is expected to show strong sales increases as a result of the introduction of its national home shopping service. However, the market will want to know the underlying costs of delivering to customers' homes. Until the company gives greater disclosure, there will be some scepticism that the service and underlying sales growth is sustainable in the long-term. NatWest Markets expects a fall in underlying, or "normalised" profits from £56.2m to £46.7m (£78m).

● Newcastle United, the football club, unveils its first interim figures as a plc, and, investors and analysts will want to hear whether the board has made a decision about the future of Freddie Shepherd and Douglas Hall, club chairman and vice chairman respectively.

Last week a tabloid newspaper alleged that they had boasted about selling Newcastle replica shirts for 10 times the cost of manufacture, and had insulted local women and Newcastle icons Kevin Keegan and Alan Shearer. The board may want to remove Mr Shepherd and Mr Hall: the problem is that between them they own 65 per cent of the company. House broker NatWest Markets expects a 20 per cent rise in operating profits to £7.8m (£13m).

WEDNESDAY

● Barratt Developments is unlikely to buck the positive trend in housebuilding: interim pre-tax profits are forecast to rise 25 per cent to

£30.9m (£51.6m) on completions up 15 per cent to 3,850. Two questions loom large over future prospects. How will an anticipated slowdown in housing starts affect future results? And to what extent will last year's price rises in the South-east feed through to the rest of the country?

● Despite gains in ready-mix concrete, Tarmac's January trading update showed a weakening in the second half, driven by a decline in roadbuilding products. Analysts hope the company will use results meetings to explain how it will respond to the competitive threat from Lafarge, the French buildings materials company which entered the UK market through the purchase of Redland last year. A consen-

sus of estimates from First Call suggests a pre-tax figure of £113.1m (£189m) up from £75m.

THURSDAY

● Fortis, the Dutch-Belgian financial group, is expected to announce on Thursday 1997 net profit up at Ecu889m, from Ecu731m a year earlier, according to analysts' forecasts. Net profit at Fortis Amey, the Dutch half of the company, is seen up at F1 987m-F1 998m, or F1 540-F1 545 a share, from F1 804m or F1 442 a share, with a full-year dividend hike to about F1 2.30 from F1 1.90.

Fortis' own forecast made with third quarter results was for a 15-20 per cent increase in full-year net

profit and earnings per share. Life insurance results should be up on the back of strong underlying growth, with better US accident and health results after these already started to improve in the course of 1996, said analysts. *AFX-News, Amsterdam*

● Next, the fashion retailer, has come under close scrutiny in the weeks following its disappointing January sales statement. The admission then that higher than expected stock levels had meant deeper discounts has left the market a little nervous about current sales trends. However, few analysts believe the group will show a serious stutter. Expectations are for annual pre-tax profits of about £18m (£304m) up from £156m.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount £m	Maturity	Coupon %	Price	Yield %	Launch spread bps	Book-runner
US DOLLARS							
Republic of Argentina	750	Jan 2017	11.75	112.75	8.88	-	J.P. Morgan Securities
International Edison	500	Mar 2003	5.67	99.625	5.84	(250)/100	Morgan Stanley DW
Habib Finance	250	Apr 2002	5.75	99.38	5.79	(250)/100	BNP Paribas
Securities	200	Mar 2003	5.6	100.025	-	-	Gold Leasing/JPFS
MTI	150	Mar 2003	5.6	99.38	6.04	(400)/100	Goldman Sachs
Magnum of Denmark	500	Apr 2002	5.75	99.38	5.81	(220)/100	Tokai-Mitsubishi Int
Alloy Real Time Services	200	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
CEZ	400	Apr 2002	5.75	99.38	5.84	(250)/100	Barclays/BIS
Chubb	300	Mar 2003	5.6	99.38	6.14	(410)/100	Barclays/BIS
ENR, 1998-1, Class A1/B1	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A2/B2	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A3/B3	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A4/B4	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A5/B5	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A6/B6	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A7/B7	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A8/B8	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A9/B9	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A10/B10	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A13/B13	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A15/B15	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A31/B31	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A33/B33	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A34/B34	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A38/B38	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A98/B98	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A110/B110	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A111/B111	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A112/B112	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A113/B113	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A114/B114	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A115/B115	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
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ENR, 1998-1, Class A117/B117	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A118/B118	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A119/B119	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A120/B120	250	Mar 2003	5.75	99.38	5.84	(250)/100	Barclays/BIS
ENR, 1998-1, Class A121/B121	250	Mar 2003					

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Adelaide Bank FRN 1998
\$153.34
Bank of Ireland 9.94% SBD 2003
\$97.50
Bechtel 0.05p
Commercial Lns on Inv Prop
Secs Class A CMBSFN 2009
\$108.27
Do Class M1 CMBSFN 2009
\$219.03
Do Class M2 CMBSFN 2009
\$224.07
Do Class B CMBSFN 2007.82
Coverity BS FRN 2001 \$193.22
Ecopartners FRN 2002 \$28.80
European Inv Bank 11% Ln
2002 \$275
Glory 5.8% Bds 2000 \$580000
Keeleworth High Income Trust Sp
RTZ Canada 8% GND 2001 \$60
Savem Trent 11.94% Bds 2001
\$581.25
SGW Finance 18.94% GN 2001
\$589.08
Standard Chartered Bank
\$1594.08
Thyssen DM12.0
Welsh Water 7.94% SBD 2014
\$76.25

TOMORROW

All Nippon Airways 6.35% Nts
Due 1998 \$635000.0
Asian Development Bank 10.94%
Ln 2009 \$295.25
Boots 10.6% Bds 2017 \$2831.25
British Land 8.94% 1st Mtg Bds
Bds 2035 4.4375p
Ford Credit Europe FRN 2001
\$193.22
Fukushima Electric FRN March
1998 \$24414.0
Do FRN June 1998 \$24414.0

Greenalls 11.94% Db 2014 \$5.75
Do 7% Cv Bds 3.5p
Guaranteed Overseas Lns FRN
2007 \$3760.83
ICG Bank \$20.15
Int'l Bank for Reconstruction &
Dev 9.94% 2010 \$4.75
Jersey Phoenix Trust 1.5p
Leumi Int'l Investments FRN
1987 \$304.81
Midland Bank Undated FRP
Sept 1985 Issue \$304.81
NSK 2.8% Bds 1998 \$280000.0
Do 3.1% Bds 1998 \$210000.0
SGW Gld FRN 1998 \$18.44
Sidlav Group 7.94% Cv Ln
2003/08 \$3.75
Kingdom of Spain 11.94% Ln
2010 \$293.75
Standard Chartered Undated
FRN \$37.09
Sterra Kopparberg Bergslags
AB \$ Frs \$45.75
Toda 5% Dual Basis Nts 1998
\$229785.0
Woolwich FRN 1999 \$192.54

WEDNESDAY MARCH 25
ABF Investments 5.94% Lns Ln
1987/02 1.375p
Do 7.94% Lns Ln 1987/02
1.875p
British Land 8.94% Bds 2023
\$443.75
Do 12.94% Bds 2018 \$925.0
Cable & Wireless Int'l 9.94% Gld
Bds 2019 \$982.50
Cherwell Alliance 7.94% Lns
Ln 1.875p
Dahwa PB Ltd Gld FRN
\$1200667.0
East Midlands 12% Bds 2016
\$28.60
Fleming Worldwide Income Inv
Trust 1p

Do Income Units 1p
Full Bank Int'l FRN
\$19014.0
Garrover Scotland Inv Package
Units \$8.75
Harcules Inc \$0.27
Hill Capital 7.94% Cv Cap Bds
2006 \$187.50
Hyder 10.94% Bds 2002 \$537.50
Japan Airport Terminal 6.4%
Bds 1998 \$640000.0
Kvaerner 8% Lns Ln 1994/99
\$4.0
Do 9.94% Lns Ln 2000/05 \$4.75
Manchester Corp 3% Rd Cnld
75p
Marston, Thompson & Evershed
10.94% Db 2012 \$5.125
Met. Water Board (Chelsea
Wtworks) 2.94% 1997 \$1.375
New Zealand 11.94% 2014
\$207.50
Northern Electric 12.661% Bds
2018 \$1087.50
Northern Rock 10.94% Bds 2018
\$1037.50
Railtrack 9.94% Bds 2006
\$31.25
Do 9.94% Bds 2016 \$96.25
Robert Fleming Int'l 9.94% Gld
Notes \$92.50
Royal Insurance 9.94% 2003
\$96.25
Svenska Exportkredit AB 8%
Notes 2003 \$200.0
Tendering Hundred Water 4.94%
Rd Bds \$2.25
Tokyu Land 5.94% Bds 1998
\$530000.0
Treasury 8% 2009 \$4.0

THURSDAY MARCH 26
BG 10.94% Bds 2001 \$108.75
BT 8.94% Bds 2020 \$96.25
Daily Mail & General Tat 5.94%

Bds 2003 \$28.75
English & Scottish Investors
0.95p
Do 3.94% Pfr \$1.875
Exchequer 12.94% 1999 \$8.125
General Accident 25p
Hilliers Sanyo Kalsha 5.35%
Bds 1998 \$530000.0
Do 5.7% Bds 2003 \$570000.0
National Grid 7.94% Bds 1998
\$237.50
National Power 10.94% Bds
2001 \$1062.50
North British Housing
Association 8.94% Gld 2018/20
\$4.125
Oxford Instruments 2.3p
PowerGen 8.94% Bds 2003
\$887.50
Scottish Hydro 7.94% Bds 2007
\$78.75
Tishman 13.94% \$6.75
Vaux 9.94% Db 2015 \$4.9375
Do 10.94% 2019 \$5.375
Do 11.94% 2010 \$5.875

FRIDAY MARCH 27
Birkby 2.5p
Cable & Wireless Int'l Fin 10.94%
Bds 2002 \$1037.50
Dahwa Overseas Fin FRN 2002
\$9250.0
Fidelity European Values II Ln
2001 1.0625p
Financial Recruiters for
Secs Transactions FRN 2010
\$206.14
Formosa Fund Units TWS19.0
Do Units Regd TWS1900.0
Garrover Fledgling Index Tat
0.4p
Samuel Heath 3.5p
IMS Group 2.2p
Irish Corti IR4.32p

Republic of Italy 6.94% Bds Sept
27 2023 \$34.375
Jupiter Geared Capital & Inc Tat
1999 Inc 1.6p
Lawrence 1.5p
Mansfield Brewery 11.94% Db
2010 \$5.75
Marubeni Int'l Fin 6.4% C Bds
1998 \$640000.0
Mersey Docks and Harbour
Company 6.94% Rd Db \$3.375
National Bank \$0.38
NatWest Smaller Cos 1.125p
Northern Foods 4p
Residential Property Secs Class
A2 FRN 2025 \$1328.52
Do Class B FRN 2025 \$2151.03
Sabre Int'l 6.4% Nts Due 1998
\$640000.0
Stars 1 Class A FRN 2029
\$88.55
Thames Asset Global Sec Class
A1 FRN 2037 \$988.48
Total Bank Nederland FRG
2002 \$8000.0
Tops Estates 0.74p

SATURDAY MARCH 28
Property Perfect Public 3.94%
Cv Bds 2001 \$32.50

SUNDAY MARCH 29
BAA 4.94% Cv Bds 2004
\$28.708
Do 5.94% Cv Bds 2006 2.875p
National Grid 8% Bds 2008
\$80.0
Nottingham Water Anns (£1.35
of Anns) 87.5p
Yorkshire Electricity 9.94% Bds
2005 \$62.5p

UK COMPANIES

TODAY

COMPANY MEETING:
Temple Bar Inv Tat,
Watermen's Hall, St Mary at
Hill, EC, 11am
BOARD MEETINGS:
Finais:
Alaxos; Aspen; Broom;
Caradoc; First Russian Front;
Forth Ports; Hamleys; Martin
Currie Pacific; Morgan
Crucible; Nestor Healthcare;
Newport; Roxboro; Sherwood
Grp; Taylor Nelson TT
Interims: Northern Electric;
Northern Leisure; Wescol

TOMORROW
COMPANY MEETING:
Polyhedron Hldgs, Kettlebridge
Road, Sheffield, noon
BOARD MEETINGS:
Finais:
Aggregate Inds; Brammer;
Britannic Assurance; Croda
Int'l; Danville (S); EDC; Flextech;
Glynwed Int'l; Hunting; Iceland
Independent Radio; Meggitt;
Nycomed Amersham;
Paramet; Parneston;
P & O; Sevensfield-Reeves;
Singapore Para Rubber;
VCE/Varo
Interims: Gremlin; Scottish Met
Prop

WEDNESDAY MARCH 25
COMPANY MEETINGS:
Burlington, Honourable Artillery
Co, Armoury Hse, City Rd, EC,
11.30am
Donmick Hunter, Mint Hse,
Manuel Street, E, 10am
Edinburgh Java Tat, Donaldson,

House, Haymarket Terrace,
Edinburgh, 2pm
London Finance & Inv,
Honourable Artillery Co,
Armoury Hse, City Rd, EC, noon
London Scottish Bank,
Bridgewater Hall, Barbican Sq,
Lowe Mosley 800, Manchester,
noon
Mercury World Mining Tat,
Gibson Hall, Bishopsgate, EC,
2.30pm
Nightlight, Transerra Rovers
FC, Pronton Pk, Pronton Rd
West, Birkenhead, noon
Rights & Issues Inv Tat, City
Road, EC, noon
Scottish American Inv,
Charlotte Square, Edinburgh,
11am
Soundtracs, Blenheim Rd,
Longmead Bus. Pk, Surrey,
noon
BOARD MEETINGS:
Finais:
Brake Bros; City Centre
Restaurants; Clarkson (H);
Dainton; Dawson; FBD
Hldgs; Fulmer; Highcroft
Inv; House of Fraser;
Kingspan; Linders; Matthews
(Bernard); Nichols (JN)
(Vinto); Pegasus; Rexam
Interims: Baratt Dens;
Calsonic; Demulder; Demulder
Inv Tat

THURSDAY MARCH 26
COMPANY MEETINGS:
Bates, Queens Hotel, Meyrick
Rd, Bourneville, 3pm
Bearing Power Int'l, 180 Strand,
WC, 10am
CCI Hldgs, Cornhill, EC,
11.30am

Crest Nicholson, Runnymede
Hotel, Windsor Road, Egham,
noon
Planting Income & Growth Inv
Tat, Copthall Ave, EC, 3pm
BOARD MEETINGS:
Finais:
Beauford; Clubhaus; Ecilpe;
Blinds; Innovative Technology;
Macfarlane; Meristem; Next;
Norcor; Oriflame; Queens
Most Houses; Singer &
Friedlander; Swiss Hill;
Wolstenholme Bink
Interims: Bellis Gifford Japan;
Beazer; Premium Tat; Scottish
Oriental Smaller Co's Tat

FRIDAY MARCH 27
COMPANY MEETING:
Barnsford, Great Thomson
Hse, Melton St, Euston Sq, NW,
10am
BOARD MEETINGS:
Finais:
Autologic; Britton
Estates; Rotork
Interims: Fidelity Special
Values
Company meetings are annual
general meetings unless
otherwise stated.
Reports and accounts are not
available until approximately six
weeks after the board meeting
to approve the preliminary
results.
This list is not necessarily
comprehensive since
companies are no longer
obliged to notify the Stock
Exchange of imminent
announcements.

CONFERENCES & EXHIBITIONS

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MARCH 31 - APRIL 1
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Our 3rd annual performance management
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strategic objectives and address the
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effective measurement. Contact: Jane Mills
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Email: jane.mills@pearson-pro.com

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One day conference with
distinguished panel of speakers
including:
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Managing Director, Microsoft
Research Labs, Cambridge
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• Accounting Standards • The Audit
Requirements • Accounting for Groups
and Consolidated Statements • Turnover,
Trading Expenses, Pre-Tax Profit
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Cashflow Statements • Profitability,
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APRIL 3 & 17 AND MAY 1 & 8
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represent a threat to the manufacturer's or
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APRIL 20 - 22
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APRIL 27-30
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The Global Perspective. 4th International
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Fax: 01494 488590
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APRIL 28 - 30
Project Finance
• Project Risk • Feasibility Studies and
Project Plans • Construction of
Cashflows and use of Modeling
• Risk/Return Prospects • Discounted
Cashflows, IRR and NPV • Types and
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• Risk/Return Prospects • Discounted
Cashflows, IRR and NPV • Types and
Sources of Finance including Equity
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MAY 11
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Old Thorne Hotel, HAMPSHIRE

JUNE 22 & 23
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Officer, AngloGold; Dr Sarwar Murry,
Chief Executive, Gold Fields Mineral
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Treasury, Strategy Division, Austrian
National Bank and Mr John M Wilton,
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FINANCIAL TIMES
No FT, no comment.

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السؤال الأول

CURRENCIES & MONEY

Punt sets precedent

By Simon Kuper

The markets used to wonder whether European monetary union would ever happen. Later they wondered which currencies would join. Now they wonder about the exact exchange rates of the founder members.

Last weekend the central rate of the Irish punt within the European exchange-rate mechanism was revealed 3 per cent. No currency had ever been revealed within the ERM against the D-Mark, but the move struck some traders as a precedent for other currencies. Their suspicions grew on Thursday when Finland raised interest rates to above German levels, putting upward pressure on the markka.

This week will test belief in revaluation. On Wednesday the European Commission and European Monetary Institute will each publish reports on likely Euro day founder members. Two days later Hans Eichel, Bundesbank president, will tell the German cabinet about

his bank's views on Euro convergence. The writer of comment and data could include hints that some countries need to revalue before the euro is launched next year.

The reason the market thinks revaluations could happen is that the economies of most countries planning to join Euro are growing faster than that of Germany. This is true of the Netherlands, Spain and Portugal as well as Finland and Ireland. But after the euro's launch, these countries will have to have the same interest rates as Germany, which could spark inflation. A stronger currency could counteract the risk.

This week, traders will weigh up Japan's latest economic stimulus package. It is expected to be worth ¥10,000bn-¥15,000bn, but if it is smaller the yen could drop from its already low rate of just below ¥130 to the dollar.

The week's key economic figures are arguably US personal income data for February, due on Friday.

POUND SPOT FORWARD AGAINST THE POUND

Mar 20	Currency	Spot	1m	3m	6m	12m	18m	24m	36m	48m	60m	72m	84m	96m	108m	120m	132m	144m	156m	168m	180m	192m	204m	216m	228m	240m	252m	264m	276m	288m	300m	312m	324m	336m	348m	360m	372m	384m	396m	408m	420m	432m	444m	456m	468m	480m	492m	504m	516m	528m	540m	552m	564m	576m	588m	600m	612m	624m	636m	648m	660m	672m	684m	696m	708m	720m	732m	744m	756m	768m	780m	792m	804m	816m	828m	840m	852m	864m	876m	888m	900m	912m	924m	936m	948m	960m	972m	984m	996m	1008m	1020m	1032m	1044m	1056m	1068m	1080m	1092m	1104m	1116m	1128m	1140m	1152m	1164m	1176m	1188m	1200m	1212m	1224m	1236m	1248m	1260m	1272m	1284m	1296m	1308m	1320m	1332m	1344m	1356m	1368m	1380m	1392m	1404m	1416m	1428m	1440m	1452m	1464m	1476m	1488m	1500m	1512m	1524m	1536m	1548m	1560m	1572m	1584m	1596m	1608m	1620m	1632m	1644m	1656m	1668m	1680m	1692m	1704m	1716m	1728m	1740m	1752m	1764m	1776m	1788m	1800m	1812m	1824m	1836m	1848m	1860m	1872m	1884m	1896m	1908m	1920m	1932m	1944m	1956m	1968m	1980m	1992m	2004m	2016m	2028m	2040m	2052m	2064m	2076m	2088m	2100m	2112m	2124m	2136m	2148m	2160m	2172m	2184m	2196m	2208m	2220m	2232m	2244m	2256m	2268m	2280m	2292m	2304m	2316m	2328m	2340m	2352m	2364m	2376m	2388m	2400m	2412m	2424m	2436m	2448m	2460m	2472m	2484m	2496m	2508m	2520m	2532m	2544m	2556m	2568m	2580m	2592m	2604m	2616m	2628m	2640m	2652m	2664m	2676m	2688m	2700m	2712m	2724m	2736m	2748m	2760m	2772m	2784m	2796m	2808m	2820m	2832m	2844m	2856m	2868m	2880m	2892m	2904m	2916m	2928m	2940m	2952m	2964m	2976m	2988m	3000m	3012m	3024m	3036m	3048m	3060m	3072m	3084m	3096m	3108m	3120m	3132m	3144m	3156m	3168m	3180m	3192m	3204m	3216m	3228m	3240m	3252m	3264m	3276m	3288m	3300m	3312m	3324m	3336m	3348m	3360m	3372m	3384m	3396m	3408m	3420m	3432m	3444m	3456m	3468m	3480m	3492m	3504m	3516m	3528m	3540m	3552m	3564m	3576m	3588m	3600m	3612m	3624m	3636m	3648m	3660m	3672m	3684m	3696m	3708m	3720m	3732m	3744m	3756m	3768m	3780m	3792m	3804m	3816m	3828m	3840m	3852m	3864m	3876m	3888m	3900m	3912m	3924m	3936m	3948m	3960m	3972m	3984m	3996m	4008m	4020m	4032m	4044m	4056m	4068m	4080m	4092m	4104m	4116m	4128m	4140m	4152m	4164m	4176m	4188m	4200m	4212m	4224m	4236m	4248m	4260m	4272m	4284m	4296m	4308m	4320m	4332m	4344m	4356m	4368m	4380m	4392m	4404m	4416m	4428m	4440m	4452m	4464m	4476m	4488m	4500m	4512m	4524m	4536m	4548m	4560m	4572m	4584m	4596m	4608m	4620m	4632m	4644m	4656m	4668m	4680m	4692m	4704m	4716m	4728m	4740m	4752m	4764m	4776m	4788m	4800m	4812m	4824m	4836m	4848m	4860m	4872m	4884m	4896m	4908m	4920m	4932m	4944m	4956m	4968m	4980m	4992m	5004m	5016m	5028m	5040m	5052m	5064m	5076m	5088m	5100m	5112m	5124m	5136m	5148m	5160m	5172m	5184m	5196m	5208m	5220m	5232m	5244m	5256m	5268m	5280m	5292m	5304m	5316m	5328m	5340m	5352m	5364m	5376m	5388m	5400m	5412m	5424m	5436m	5448m	5460m	5472m	5484m	5496m	5508m	5520m	5532m	5544m	5556m	5568m	5580m	5592m	5604m	5616m	5628m	5640m	5652m	5664m	5676m	5688m	5700m	5712m	5724m	5736m	5748m	5760m	5772m	5784m	5796m	5808m	5820m	5832m	5844m	5856m	5868m	5880m	5892m	5904m	5916m	5928m	5940m	5952m	5964m	5976m	5988m	6000m	6012m	6024m	6036m	6048m	6060m	6072m	6084m	6096m	6108m	6120m	6132m	6144m	6156m	6168m	6180m	6192m	6204m	6216m	6228m	6240m	6252m	6264m	6276m	6288m	6300m	6312m	6324m	6336m	6348m	6360m	6372m	6384m	6396m	6408m	6420m	6432m	6444m	6456m	6468m	6480m	6492m	6504m	6516m	6528m	6540m	6552m	6564m	6576m	6588m	6600m	6612m	6624m	6636m	6648m	6660m	6672m	6684m	6696m	6708m	6720m	6732m	6744m	6756m	6768m	6780m	6792m	6804m	6816m	6828m	6840m	6852m	6864m	6876m	6888m	6900m	6912m	6924m	6936m	6948m	6960m	6972m	6984m	6996m	7008m	7020m	7032m	7044m	7056m	7068m	7080m	7092m	7104m	7116m	7128m	7140m	7152m	7164m	7176m	7188m	7200m	7212m	7224m	7236m	7248m	7260m	7272m	7284m	7296m	7308m	7320m	7332m	7344m	7356m	7368m	7380m	7392m	7404m	7416m	7428m	7440m	7452m	7464m	7476m	7488m	7500m	7512m	7524m	7536m	7548m	7560m	7572m	7584m	7596m	7608m	7620m	7632m	7644m	7656m	7668m	7680m	7692m	7704m	7716m	7728m	7740m	7752m	7764m	7776m	7788m	7800m	7812m	7824m	7836m	7848m	7860m	7872m	7884m	7896m	7908m	7920m	7932m	7944m	7956m	7968m	7980m	7992m	8004m	8016m	8028m	8040m	8052m	8064m	8076m	8088m	8100m	8112m	8124m	8136m	8148m	8160m	8172m	8184m	8196m	8208m	8220m	8232m	8244m	8256m	8268m	8280m	8292m	8304m	8316m	8328m	8340m	8352m	8364m	8376m	8388m	8400m	8412m	8424m	8436m	8448m	8460m	8472m	8484m	8496m	8508m	8520m	8532m	8544m	8556m	8568m	8580m	8592m	8604m	8616m	8628m	8640m	8652m	8664m	8676m	8688m	8700m	8712m	8724m	8736m	8748m	8760m	8772m	8784m	8796m	8808m	8820m	8832m	8844m	8856m	8868m	8880m	8892m	8904m	8916m	8928m	8940m	8952m	8964m	8976m	8988m	9000m	9012m	9024m	9036m	9048m	9060m	9072m	9084m	9096m	9108m	9120m	9132m	9144m	9156m	9168m	9180m	9192m	9204m	9216m	9228m	9240m	9252m	9264m	9276m	9288m	9300m	9312m	9324m	9336m	9348m	9360m	9372m	9384m	9396m	9408m	9420m	9432m	9444m	9456m	9468m	9480m	9492m	9504m	9516m	9528m	9540m	9552m	9564m	9576m	9588m	9600m	9612m	9624m	9636m	9648m	9660m	9672m	9684m	9696m	9708m	9720m	9732m	9744m	9756m	9768m	9780m	9792m	9804m	9816m	9828m	9840m	9852m	9864m	9876m	9888m	9900m	9912m	9924m	9936m	9948m	9960m	9972m	9984m	9996m	10008m	10020m	10032m	10044m	10056m	10068m	10080m	10092m	10104m	10116m	10128m	10140m	10152m	10164m	10176m	10188m	10200m	10212m	10224m	10236m	10248m	10260m	10272m	10284m	10296m	10308m	10320m	10332m	10344m	10356m	10368m	10380m	10392m	10404m	10416m	10428m	10440m	10452m	10464m	10476m	10488m	10500m	10512m	10524m	10536m	10548m	10560m	10572m	10584m	10596m	10608m	10620m	10632m	10644m	10656m	10668m	10680m	10692m	10704m	10716m	10728m	10740m	10752m	10764m	10776m	10788m	10800m	10812m	10824m	10836m	10848m	10860m	10872m	10884m	10896m	10908m	10920m	10932m	10944m	10956m	10968m	10980m	10992m	11004m	11016m	11028m	11040m	11052m	11064m	11076m	11088m	11100m	11112m	11124m	11136m	11148m	11160m	11172m	11184m	11196m	11208m	11220m	11232m	11244m	11256m	11268m	11280m	11292m	11304m	11316m	11328m	11340m	11352m	11364m	11376m	11388m	11400m	11412m	11424m	11436m	11448m	11460m	11472m	11484m	11496m	11508m	11520m	11532m	11544m	11556m	11568m	11580m	11592m	11604m	11616m	11628m	11640m	11652m	11664m	11676m	11688m	11700m	11712m	11724m	11736m	11748m	11760m	11772m	11784m	11796m	11808m	11820m	11832m	11844m	11856m	11868m	11880m	11892m	11904m	11916m	11928m	11940m	11952m	11964m	11976m	11988m	12000m	12012m	12024m	12036m	12048m	12060m	12072m	12084m	12096m	12108m	12120m	12132m	12144m	12156m	12168m	12180m	12192m	12204m	12216m	12228m	12240m	12252m	12264m	12276m	12288m	12300m	12312m	12324m	12336m	12348m	12360m	12372m	12384m	12396m	12408m	12420m	12432m	12444m	12456m	12468m	12480m	12492m	12504m	12516m	12528m	12540m	12552m	12564m	12576m	12588m	12600m	12612m	12624m	12636m	12648m	12660m	12672m	12684m	12696m	12708m	12720m	12732m	12744m	12756m	12768m	12780m	12792m	12804m	12816m	12828m	12840m	12852m	12864m	12876m	12888m	12900m	12912m	12924m	12936m	12948m	12960m	12972m	12984m	12996m	13008m	13020m	13032m	13044m	13056m	13068m	13080m	13092m	13104m	13116m	13128m	13140m	13152m	13164m	13176m	13188m	13200m	13212m	13224m	13236m	13248m	13260m	13272m	13284m	13296m	13308m	13320m	13332m	13344m	13356m	13368m	13380m	13392m	13404m	13416m	13428m	13440m	13452m	13464m	13476m	13488m	13500m	13512m	13524m	13536m
Change on day	Historic	High	Mid	Low	One month	Three months	SAP	One year	SAP	End of day																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
Europe	(Spot)	21,4782	-0.0018	-0.01	842	21,4897	21,4075	21,404	40	21,297	3.9	203,648	3.4	102																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																

AIM - Continued

SUPPORT SERVICES

4308 PROPERTY - Continued

PAPER, PACKAGING & PRINTING

3.11	1773
2.9	4824
2.9	1196

RETAILERS, FOOD

1.12 1983
10.11 1984
8.2 1985
07.20 1986

23.9 1784
31.9 1808 **TOBACCO**

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1977
1978
1979
1980

147
148
149
150
151

References

FT MANAGED FUNDS SERVICE

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[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE									
AUSTRIA (Mar 20 / Sch)									
ATX	2,575.90	2,600.00	2,550.00	2,600.00	2,550.00	+10.00	+0.4	1,200,000	2,565.90
BELGIUM (Mar 20 / Fm)									
BEI	3,450.00	3,480.00	3,420.00	3,480.00	3,420.00	+30.00	+0.9	1,500,000	3,420.00
DENMARK (Mar 20 / Dm)									
OMX	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
FINLAND (Mar 20 / Hm)									
HEX	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
FRANCE (Mar 20 / Fm)									
CAC	3,450.00	3,480.00	3,420.00	3,480.00	3,420.00	+30.00	+0.9	1,500,000	3,420.00
GERMANY (Mar 20 / Dm)									
DAX	2,575.90	2,600.00	2,550.00	2,600.00	2,550.00	+10.00	+0.4	1,200,000	2,565.90
Greece (Mar 20 / Drachma)									
ATHEX	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
HOLLAND (Mar 20 / Gld)									
AEX	3,450.00	3,480.00	3,420.00	3,480.00	3,420.00	+30.00	+0.9	1,500,000	3,420.00
IRELAND (Mar 20 / Pm)									
ISEQ	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
ITALY (Mar 20 / Lit)									
FTSEM	2,575.90	2,600.00	2,550.00	2,600.00	2,550.00	+10.00	+0.4	1,200,000	2,565.90
JAPAN (Mar 20 / Yen)									
Nikkei	12,345.67	12,400.00	12,300.00	12,400.00	12,300.00	+50.00	+0.4	1,200,000	12,300.00
Korea (Mar 20 / Won)									
KOSPI	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
NORWAY (Mar 20 / Kron)									
OSLO	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
POLAND (Mar 20 / Zloty)									
WIG	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PORTUGAL (Mar 20 / Escudo)									
BVLX	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
SPAIN (Mar 20 / Ptas)									
IBEX	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
SWEDEN (Mar 20 / Krona)									
OMX	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
SWITZERLAND (Mar 20 / Franc)									
SIX	3,450.00	3,480.00	3,420.00	3,480.00	3,420.00	+30.00	+0.9	1,500,000	3,420.00
TURKEY (Mar 20 / Lira)									
BIST	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
UK (Mar 20 / Pound)									
FTSE 100	2,575.90	2,600.00	2,550.00	2,600.00	2,550.00	+10.00	+0.4	1,200,000	2,565.90
USA (Mar 20 / Dollar)									
Dow Jones	12,345.67	12,400.00	12,300.00	12,400.00	12,300.00	+50.00	+0.4	1,200,000	12,300.00
EUROPEAN CURRENCY MARKETS									
Country	Index	High	Low	52 Week High	52 Week Low	Change	%	Vol	Open
AFRICA									
SOUTH AFRICA (Mar 20 / Rand)									
FTSE JSE 100	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
AMERICAS									
CANADA (Mar 20 / Dollar)									
S&P 500	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
MEXICO (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
BRAZIL (Mar 20 / Real)									
IBOV	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
ARGENTINA (Mar 20 / Peso)									
MERV	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
CHILE (Mar 20 / Peso)									
IPSA	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PERU (Mar 20 / Sol)									
IGBP	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
COLOMBIA (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
VENEZUELA (Mar 20 / Bolivar)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
CUBA (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
COSTA RICA (Mar 20 / Colon)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PANAMA (Mar 20 / Balboa)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
DOMINICAN REPUBLIC (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
HONDURAS (Mar 20 / Lempira)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
NICARAGUA (Mar 20 / Cordoba)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PARAGUAY (Mar 20 / Guaraní)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
URUGUAY (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00

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AFRICA									
SOUTH AFRICA (Mar 20 / Rand)									
FTSE JSE 100	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
AMERICAS									
CANADA (Mar 20 / Dollar)									
S&P 500	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
MEXICO (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
BRAZIL (Mar 20 / Real)									
IBOV	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
ARGENTINA (Mar 20 / Peso)									
MERV	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
CHILE (Mar 20 / Peso)									
IPSA	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PERU (Mar 20 / Sol)									
IGBP	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
COLOMBIA (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
VENEZUELA (Mar 20 / Bolivar)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
CUBA (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
COSTA RICA (Mar 20 / Colon)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PANAMA (Mar 20 / Balboa)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
DOMINICAN REPUBLIC (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
HONDURAS (Mar 20 / Lempira)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
NICARAGUA (Mar 20 / Cordoba)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PARAGUAY (Mar 20 / Guaraní)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
URUGUAY (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00

AFRICA									
SOUTH AFRICA (Mar 20 / Rand)									
FTSE JSE 100	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
AMERICAS									
CANADA (Mar 20 / Dollar)									
S&P 500	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
MEXICO (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
BRAZIL (Mar 20 / Real)									
IBOV	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
ARGENTINA (Mar 20 / Peso)									
MERV	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
CHILE (Mar 20 / Peso)									
IPSA	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PERU (Mar 20 / Sol)									
IGBP	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
COLOMBIA (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
VENEZUELA (Mar 20 / Bolivar)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
CUBA (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
COSTA RICA (Mar 20 / Colon)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PANAMA (Mar 20 / Balboa)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
DOMINICAN REPUBLIC (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
HONDURAS (Mar 20 / Lempira)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
NICARAGUA (Mar 20 / Cordoba)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
PARAGUAY (Mar 20 / Guaraní)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00
URUGUAY (Mar 20 / Peso)									
IPC	1,150.00	1,160.00	1,140.00	1,160.00	1,140.00	+10.00	+0.9	500,000	1,140.00

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FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Index is based on FTSE International Limited, Standard & Poor's, Inc. and Standard & Poor's. The index is compiled by FTSE International Limited and Standard & Poor's, Inc. in conjunction with the Faculty of Actuaries and the Institute of Actuaries. Member Societies Ltd. was a co-ordinator of the index.

ACTUARIAL AND REGIONAL MARKETS

Fig

NEW YORK STOCK EXCHANGE PRICES

4 pm close March 20

A		B		C		D		E		F		G		H		I		J		K		L		M		N		O		P		Q		R		S		T		U		V		W		X		Y		Z				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50					
50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100				
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155
156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210
211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265
266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320
321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375
376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430
431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485
486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540
541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595
596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650
651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705
706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760
761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815
816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870
871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925
926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980
981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032			

GLOBAL EQUITY MARKETS

US INDICES

	Mar 20	Mar 19	Mar 18	1987/88	Stock completion	
				High	Low	
Industrials	8808.48	8803.05	8775.40	(20/3/88)	8801.83	8806.63
				(11/4/87)	(20/3/88)	(6/7/88)
Non-Ferrous	105.21	105.19	105.30	105.48	105.19	105.48
				(19/1/88)	(14/4/87)	(10/1/88)
Transport	3586.82	3613.40	3603.81	3608.81	3592.81	3613.40
				(17/3/88)	(21/8/87)	(17/3/88)
Utilities	265.88	261.78	261.24	265.88	264.47	265.88
				(20/3/88)	(25/4/87)	(20/3/88)
AI Ind. Ind. Div. Yield	8807.25	8803.11	8775.40	8806.63	(20/3/88)	(6/7/88)
Day's High 8812.41	8803.05	Low 8765.53	8803.05	(20/3/88)		
Standard Ind. Pairs						
Commodities	1095.14	1089.74	1085.51	1092.14	1077.01	1092.14
				(20/3/88)	(21/8/87)	(20/3/88)
Industrials	127.25	126.82	1258.83	1272.25	1265.45	1272.25
				(11/4/87)	(20/3/88)	(6/7/88)
Finance	135.82	134.89	134.11	135.82	134.75	135.82
				(20/3/88)	(21/8/87)	(14/4/87)
Others						
NYSE Comp.	572.61	567.38	565.62	572.61	567.61	572.61
				(11/4/87)	(20/3/88)	(25/4/87)
Amex Comp.	727.78	726.80	722.78	727.78	724.29	727.78
				(20/3/88)	(19/3/88)	(19/3/88)
NASDAQ Comp.	1788.18	1795.89	1778.26	1788.18	1778.26	1788.18
				(19/3/88)	(24/8/87)	(19/3/88)
Russell 2000	474.28	474.30	472.18	474.28	473.85	474.28
				(19/3/88)	(24/8/87)	(19/3/88)

■ TRADING ACTIVITY

Volume (millions)	Mar 20	Mar 18	Mar 18	NYSE
NYSE	715.84	688.05	632.80	Unchanged
Amex	25.110	27.178	24.223	New High
NASDAQ	737.793	763.975	794.711	New High

■ NYSE TRADING ACTIVITY

Volume: 715,834,300

■ ACTIVE STOCKS

■ BIGGEST MOVERS

Price	Stocks traded	Close price	Day's change	Day's change %
Comcast	18,897,200	234	+	14
Comcast	8,734,000	43	-1	-1
Scotiabank	5,000,000	81	+	14
Scotiabank	5,000,000	81	+	14
Scotiabank				
Comcast	18,897,200	234	+	14
Comcast	8,734,000	43	-1	-1
Scotiabank	5,000,000	81	+	14
Scotiabank	5,000,000	81	+	14
Scotiabank				

JAPAN

	Mar 20	Mar 19	Mar 18	1987/88	Stock completion				
				High	Low				
Nikkei 225	18804.47	18870.02	18816.08	18861.1	18804.4	18816.0			
				(20/3/88)	(19/3/88)	(19/3/88)			
TOYO TRADING ACTIVITY	Volume: 472,000,000								
■ ACTIVE STOCKS	■ BIGGEST MOVERS								
Price	Stocks traded	Close price	Day's change	Day's change %	Price	Stocks traded	Close price	Day's change	Day's change %
Daewoo	1,800,000	228	+	10.2	Yamaha	279	280	+1.0	+0.3
Daewoo	1,800,000	228	+	10.2	Yamaha	279	280	+1.0	+0.3
Daewoo	1,800,000	228	+	10.2	Yamaha	279	280	+1.0	+0.3
Daewoo	1,800,000	228	+	10.2	Yamaha	279	280	+1.0	+0.3
Daewoo	1,800,000	228	+	10.2	Yamaha	279	280	+1.0	+0.3

FRANCE

	Mar 20	Mar 19	Mar 18	1987/88	Stock completion				
				High	Low				
CAC 40	3684.1	3684.4	3682.51	3684.5	3682.5	3684.5			
				(20/3/88)	(19/3/88)	(19/3/88)			
PARIS TRADING ACTIVITY	Volume: 400,222,000								
■ ACTIVE STOCKS	■ BIGGEST MOVERS								
Price	Stocks traded	Close price	Day's change	Day's change %	Price	Stocks traded	Close price	Day's change	Day's change %
Alcatel	3,194,125	301	-14.9	-5.0	Imperial	78.0	78.0	+0.0	+0.0
Alcatel	3,194,125	301	-14.9	-5.0	Imperial	78.0	78.0	+0.0	+0.0
Alcatel	3,194,125	301	-14.9	-5.0	Imperial	78.0	78.0	+0.0	+0.0
Alcatel	3,194,125	301	-14.9	-5.0	Imperial	78.0	78.0	+0.0	+0.0
Alcatel	3,194,125	301	-14.9	-5.0	Imperial	78.0	78.0	+0.0	+0.0

UK

	Mar 20	Mar 19	Mar 18	1987/88	Stock completion				
				High	Low				
FTSE 100	2593.5	2597.8	2600.8	2598.5	2593.5	2600.8			
				(20/3/88)	(19/3/88)	(19/3/88)			
LONDON TRADING ACTIVITY	Volume: 1,630,168,000								
■ ACTIVE STOCKS	■ BIGGEST MOVERS								
Price	Stocks traded	Close price	Day's change	Day's change %	Price	Stocks traded	Close price	Day's change	Day's change %
Shell T & T	43,172,340	434	+454	+10.5	Microfilm	125	125	+0.0	+0.0
Shell T & T	43,172,340	434	+454	+10.5	Microfilm	125	125	+0.0	+0.0
Shell T & T	43,172,340	434	+454	+10.5	Microfilm	125	125	+0.0	+0.0
Shell T & T	43,172,340	434	+454	+10.5	Microfilm	125	125	+0.0	+0.0
Shell T & T	43,172,340	434	+454	+10.5	Microfilm	125	125	+0.0	+0.0

EUROPE

	Mar 20	Mar 19	Mar 18	1987/88	Stock completion	
				High	Low	
FTSE Europe 300	1210.0	1210.0	1210.0	1210.0	1210.0	1210.0
				(20/3/88)	(19/3/88)	(19/3/88)

INDEX FUTURES

	Open	Sell price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jan	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Feb	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Mar	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Apr	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
May	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Jun	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Jul	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Aug	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Sep	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Oct	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Nov	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711
Dec	1101.10	1111.20	+8.50	1113.50	1100.10	118,634	346,711

■ CAC 40 (200 x index)

	Open	Sell price	Change	High	Low	Est. vol.	Open int.
Mar	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Apr	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
May	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Jun	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Jul	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Aug	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Sep	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Oct	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Nov	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488
Dec	3718.0	3686.0	-5.0	3730.0	3680.0	17,108	48,488

■ DAX

	Open	Sell price	Change	High	Low	Est. vol.	Open int.
Mar	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Apr	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
May	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Jun	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Jul	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Aug	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Sep	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Oct	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Nov	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806
Dec	5000.0	5078.8	+57.8	5085.5	4995.0	25,242	108,806

THE NASDAQ STOCK MARKET

4 pm close March 20

AMERICAN STOCK MARKET										
Stock	High	Low	Open	Close	Volume	High	Low	Open	Close	Volume
IBM	154.00	153.00	153.00	153.00	100	IBM	154.00	153.00	153.00	100
Microsoft	125.00	124.00	124.00	124.00	100	Microsoft	125.00	124.00	124.00	100
Apple	110.00	109.00	109.00	109.00	100	Apple	110.00	109.00	109.00	100
Oracle	100.00	99.00	99.00	99.00	100	Oracle	100.00	99.00	99.00	100
Amazon	90.00	89.00	89.00	89.00	100	Amazon	90.00	89.00	89.00	100
Google	80.00	79.00	79.00	79.00	100	Google	80.00	79.00	79.00	100
Facebook	70.00	69.00	69.00	69.00	100	Facebook	70.00	69.00	69.00	100
Twitter	60.00	59.00	59.00	59.00	100	Twitter	60.00	59.00	59.00	100
LinkedIn	50.00	49.00	49.00	49.00	100	LinkedIn	50.00	49.00	49.00	100
Slack	40.00	39.00	39.00	39.00	100	Slack	40.00	39.00	39.00	100
Zoom	30.00	29.00	29.00	29.00	100	Zoom	30.00	29.00	29.00	100
Dropbox	20.00	19.00	19.00	19.00	100	Dropbox	20.00	19.00	19.00	100
Spotify	10.00	9.00	9.00	9.00	100	Spotify	10.00	9.00	9.00	100
Netflix	5.00	4.00	4.00	4.00	100	Netflix	5.00	4.00	4.00	100
Amazon	1.00	0.50	0.50	0.50	100	Amazon	1.00	0.50	0.50	100
Google	0.50	0.25	0.25	0.25	100	Google	0.50	0.25	0.25	100
Facebook	0.25	0.10	0.10	0.10	100	Facebook	0.25	0.10	0.10	100
Twitter	0.10	0.05	0.05	0.05	100	Twitter	0.10	0.05	0.05	100
LinkedIn	0.05	0.02	0.02	0.02	100	LinkedIn	0.05	0.02	0.02	100
Slack	0.02	0.01	0.01	0.01	100	Slack	0.02	0.01	0.01	100
Zoom	0.01	0.00	0.00	0.00	100	Zoom	0.01	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
Slack	0.00	0.00	0.00	0.00	100	Slack	0.00	0.00	0.00	100
Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00	0.00	0.00	100	Twitter	0.00	0.00	0.00	100
LinkedIn	0.00	0.00	0.00	0.00	100	LinkedIn	0.00	0.00	0.00	100
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Zoom	0.00	0.00	0.00	0.00	100	Zoom	0.00	0.00	0.00	100
Dropbox	0.00	0.00	0.00	0.00	100	Dropbox	0.00	0.00	0.00	100
Spotify	0.00	0.00	0.00	0.00	100	Spotify	0.00	0.00	0.00	100
Netflix	0.00	0.00	0.00	0.00	100	Netflix	0.00	0.00	0.00	100
Amazon	0.00	0.00	0.00	0.00	100	Amazon	0.00	0.00	0.00	100
Google	0.00	0.00	0.00	0.00	100	Google	0.00	0.00	0.00	100
Facebook	0.00	0.00	0.00	0.00	100	Facebook	0.00	0.00	0.00	100
Twitter	0.00	0.00								

ECONOMIC AND MONETARY UNION

Although May 2 is the selection day for Emu members, many questions remain unanswered. Lionel Barber reports

Safe landing expected for 11 countries

On Saturday, May 2, the 15 heads of government of the European Union will select the founder members of economic and monetary union, the most momentous step toward greater European integration in 40 years.

It is a racing certainty that 11 countries, including Italy, will qualify. Britain, Denmark, and Sweden will initially stay on the sidelines for political reasons. Greece, the sole economic laggard, will be encouraged to join sooner rather than later.

Just 18 months ago, few would have predicted such an outcome. Spain and Portugal's chances of meeting the entry criteria for Emu looked questionable. Italy's prospects looked even more remote. Even France and Germany were struggling.

Yet, in the past 12 months, all EU governments have stiffened the sinews and summoned up the blood to make a sprint to the Emu finishing line. On the way, they have scraped around for every spare franc, pfennig, and peseta in extra revenues to hit the Maastricht treaty's public deficit target of 3 per cent of gross domestic product for 1997.

This has been an impressive exercise in political will, especially on the part of Chancellor Helmut Kohl who views Emu as Europe's (and his own) monument for the 21st century. But there are tentative signs of a deeper economic transformation, especially in Italy, where a centre-left government, prodded by the Bank of Italy, has performed minor miracles.

But May 2 is not the end of the story. Questions remain about the sustainability of the Emu experiment; the degree of real convergence between the de facto single currency bloc built around the D-Mark and the new converts to the German stability culture from the south; and the credibil-

ity of a selection process in which almost everyone is a winner and no one a loser.

These are the doubts which the European Union intends to address in the run-up to the May 1-3 summit in Brussels. For though it has been clear since October that Emu would be politically "broad", the politicians know they must offer a convincing economic justification both to the financial markets and a sometimes sceptical public.

The first significant event takes place on March 25 when the European Commission and the European Monetary Institute, the forerunner of the future European Central Bank, publish reports on the progress which the 15 EU member states have made toward meeting the five Maastricht criteria for Emu. These are:

- Price stability: member states need to show an average rate of inflation which does not exceed by more than 1.5 per cent the three best performers.

- Exchange rate stability: countries are expected to observe "normal" fluctuation margins within the exchange rate mechanism for at least two years, without devaluing against the currency of any other member state.

- Interest rate stability: long-term rates are not expected

to exceed by more than 2 per cent the three best performing member states.

- Sustainability of public finances: the public deficit should be at or close to 3 per cent of GDP, barring temporary and exceptional circumstances.

- The ratio of public debt to GDP should not exceed 60 per cent - unless the ratio is sufficiently diminishing and approaching the value "at a satisfactory pace".

In the past few weeks, the Commission and the EMI have been playing a game of cat and mouse over the respective content of their reports. The Commission, which will make the sole recommendation on which countries have met the criteria, has sought to coax the central bankers at the EMI to minimise differences in interpreting the performance of countries.

The EMI - with Hans Tietmeyer, president of the Bundesbank in the forefront - has refused to gloss over weaknesses. The prime area of concern is the high level of government debt. Belgium and Italy have debt ratios which, though diminishing, are twice the limit set in the Maastricht treaty. A second question is the long-term funding of state pensions, highlighted by low birth rates and an ageing population in Europe.

Romano Prodi, Italy's prime minister, insists he has nothing to prove to the Germans or anyone else who still harbours doubts about the sustainability of his country's squeeze on public deficits. "I am not a social worker or a father confessor," he said in a recent trip to Brussels.

On the other hand, the Rome government is to bring forward its draft budget for 1999 and has laid out an ambitious medium-term plan for reducing the debt to the Maastricht limit.



In Germany, where public opinion is most fragile, Chancellor Kohl has invited the Bundesbank to make its own assessment, cleverly co-opting the central bank in the exercise. Speculation about a critical minority report looks wide of the mark, if only because Mr Tietmeyer, whose word counts most, will have already signed a broadly favourable EMI report.

Once the EMI and Commission reports are made public, the debate will begin in national parliaments and the European Parliament ahead of the jumbo summit over the weekend of May 1-3.

The first meeting takes place among EU finance ministers on Friday, May 1. They will formally debate the Commission report and make recommendations to

EU leaders who will make the historic choice of the founder Emu countries the next day.

At the same time, EU leaders are also expected to formally unveil their choice of the president of the European Central Bank, the vice-president, and the four other members of the executive board. Wim Duisenberg, the former president of the Dutch central bank and EMI president

appears to have confirmed his front-runner status, though Jean-Claude Trichet, governor of the Banque de France, is still in the running.

Finally, EU finance ministers and national central bank governors are expected to announce the bilateral exchange rates among currencies in the future euro zone.

The purpose is to minimise exchange rate volatility ahead of the irrevocable fixing of parities when Emu is formally launched on January 1, 1999 and a single monetary policy operates across the euro zone. For the next three years, national currencies will co-exist as non decimal denominations of the euro. Euro notes and coins will enter circulation in January and June 2002.

Without the euro jangling in the public's pocket, one might describe this lengthy transition period as "virtual monetary union". But in fact those countries inside the single currency zone will use the time to put in place the building blocks of the post-Emu world.

This means the successful launch of the new European Central Bank; the maintenance of budgetary discipline through the German-inspired Stability and Growth Pact; and the launch of the new Euro-X forum which Emu members will use to co-ordinate their economic policies.

In policy terms, the Frankfurt-based Euro-fed will have to decide whether to adopt inflation or monetary targets or a combination of both. But in practical terms, the challenge will be to establish the credibility of the new currency and the new institution with resources which will initially fall short of national central banks.

Second, economic management in the euro zone will depend on co-ordination in established forums such as the Ecofin meetings of EU finance ministers, but also on the new body known as the Euro-X club. This is the Brussels code-word for informal meetings of Emu members.

The gestation of the single currency has been painful: in the popular mind, it has become associated with low growth, budget austerity and high unemployment. After May 2, Europe's search for monetary stability will have moved to a new stage. Now comes the hard part: making the new system work.

IN THIS SURVEY

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WHAT DO THE EUROPEAN LEADERS SAY?

SEE BACK PAGE



2 ECONOMIC AND MONETARY UNION



THE CASE FOR EMU

WOLFGANG MÜNCHAU



THE CASE AGAINST EMU

ROBERT CHOTE

Europe's big opportunity Cliffhanging imprudence

Pessimists abound but there are many reasons for optimism

Few economic events in recent years have been greeted with more pessimism than European economic and monetary union. The critics have warned that a monetary union without parallel political union cannot work in the long term. Their argument suggests that the institutions of the monetary union would lack political support, and monetary policy would become progressively biased. This imbalance, they claim, could lead to high unemployment, high inflation or both. Therefore, Emu would ultimately come unstuck.

Of course, it is conceivable that Emu will founder, but these doubts would apply to any new regime. Notwithstanding the inevitable uncertainties, there are reasons for optimism.

The crucial question is: will Emu have a positive dynamic impact on the economy? In other words: does Emu have "real" effects – those that impinge upon economic growth and jobs – or is it merely a nominal change in exchange-rate regimes? If the effects were purely nominal, Emu's economic sense would indeed be open to question. Some economists have, in fact, made such a case. But risk-reward trade-off would be different under such a scenario.

This balance would change if Emu had real economic effects. Emu's more confused advocates have been citing savings on transaction and hedging costs, or even the added convenience for tourists as reasons for a single currency. While these are minor advantages, they are no reason to change a currency system.

The real economic advantages will result from interaction between the single currency and the single European market, which exists as a legal reality, but not as an economic reality, since it is ignored by most companies and consumers.

An analogy is the role of technology as a factor in economic growth. Alan Greenspan, chairman of the Federal Reserve Board, argued that the maturing of new technologies and their interaction helped the US achieve



Alan Greenspan: timing the essential ingredient

a relatively long run of robust non-inflationary growth. His point relates to timing. It is not the invention of the technology that counts, it is the time taken for various technologies to interact, and to catch on.

This is true of Europe's single market. The programme started off as a grand idea in the 1980s but was bogged down by a long list of controversial harmonisation measures. The supposed Big Bang for the single market was supposed to take place in 1992. But the Big Bang turned out to be a damp squib, when most EU countries entered a protracted cyclical economic downturn.

The supposed efficiency gains never came about because consumers and producers – apart from the large multinationals – did not behave as though they were in a single market. National exchange rates, despite the relative stability brought by the exchange rate mechanism of the European Monetary System, acted as a quasi-tariff.

Several US critics of Emu have pointed out that a single currency is not needed to run a successful free trade area. That is true. But a single currency is necessary to

tively inefficient banking system. Investors would be able to buy securities with highly diversified risk/reward trade-offs. No currency, not even the D-Mark, allows such diversity.

But by far the biggest long-term economic effect would result from the way consumers and producers react to the total transparency of wages and prices. Emu is bound to reduce, through arbitrage, the price and wage differentials across the EU, which are significantly greater than they are across the US.

Emu will accelerate the move of production towards the most cost-efficient areas. It will also accelerate the industrial transformation process in the highly industrialised countries, such as in France and Germany. A policy of supporting ailing industries would become more disparate group that is now to adopt the euro?

Embracing the single currency also means losing both monetary autonomy and the ability to use nominal exchange rate movements as a shock absorber. This need not matter if the currency area possessed three attributes that would allow it to cope with asymmetric shocks or a deterioration in competitiveness within a

member country: ■ Residents owning internationally diversified assets; ■ Fiscal transfers between countries or the flexibility to use fiscal policy nationally; ■ Flexible nominal wages or physical labour mobility.

Relative to the US – a successful single currency area of similar size – Europe performs poorly on all three. Many US residents own significant financial assets in states other than their own, especially equities held in pension funds. So, when the economy in Massachusetts is doing badly, many residents will be cushioned by income from investments in Texas or California. In contrast, most residents of the putative euro-area do not own significant equity assets outside their own country.

Language, cultural and housing market differences also mean that people are less mobile in Europe than in the US. Some economists reply that US workers move only in response to long-term structural changes, not short-term fluctuations. But as monetary union should encourage national industrial specialisation, Europe's lack of long-term labour mobility will still matter.

Wages are also more rigid in Europe than in the US. History and politics explain why Europe is adopting a single currency. Economics explains why it should not.

The European single currency is a bad idea whose time has come

History and politics explain why Europe is adopting a single currency. Economics explains why it should not.

In judging any economic reform, one should compare benefits and costs. The benefits of monetary union are predictable and will at best be modest; the costs are unpredictable but could easily be spectacular.

The abolition of currency fluctuations within Europe should reduce transaction costs, make national price differences more transparent, promote industrial specialisation and encourage trade and investment flows. But Germany, France, Austria and the Benelux nations have in effect shared a single monetary policy for a decade, with exchange rates as good as fixed. They have not enjoyed an economic renaissance as a result: so why should the more disparate group that is now to adopt the euro?

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High redundancy costs mean that movements in pay rates are less likely to absorb asymmetric shocks in Europe.

Joining the single currency means accepting a single interest rate set by the European Central Bank. For some peripheral euro-area members this will mean adopting low interest rates suited to the sluggish economies of France and Germany when their domestic conditions argue for tighter policy to stem inflationary pressures.

By joining monetary union at this stage in their economic cycles, Ireland and Spain are behaving like the spongy characters in the film *Thelma & Louise*: driving straight for the cliff, pushing the accelerator.

Inappropriate monetary policies need not matter if national fiscal policies compensate. Euro-members will retain the ability to compensate for loose monetary policy with tight fiscal policy, but the mind boggles to think how much more tightening Ireland needs to avoid its looming boom and bust.

But what if the ECB's monetary policy is too tight for a country's domestic needs? Its ability to loosen fiscal policy will be constrained by the absurd

"growth and stability pact", which is specially designed to punish a country for running too big a budget deficit by making it even bigger.

But the growth and stability pact may be overtaken by events. The largely unaccountable ECB is likely to run a tight monetary policy in its early years, to establish the "credibility" to which every central bank aspires. Eventually, as unemployment rises and political extremism fomented, fiscal prudence will crack.

Unless, of course, the disciplines of the single currency have by then inspired the liberalising structural reforms that years of excessively tight monetary policy in France have so conspicuously failed to deliver.

Floating exchange rates are no more a panacea than fixed ones or a single currency. But Europe would be better served by a regime in which monetary union was confined to those economies that are in effect subsets of Germany's. The remainder should retain their own currencies and pursue monetary policies aimed at low and stable domestic inflation.

Unfortunately, it is too late for this. The broadly based single currency is a bad idea whose time has come.

EUROPEAN CENTRAL BANK • by Wolfgang Münchau

Uncertain outlook for ECB

Many questions about Emu's most important institution remain unanswered

A new central bank, the European Central Bank (ECB), will be set up in Frankfurt this summer. The new bank will be the main institutional change to take place within the European Union in preparation for economic and monetary union.

What kind of central bank will the ECB become? Will it be a European version of the Bundesbank, or a hybrid? These are questions still to be answered. The other big uncertainty is the name of the person who will become its first president. There are two candidates – Wim Duisenberg, the Dutch central banker who is president of the European Monetary Institute, the forerunner of the ECB, and Jean-Claude Trichet, governor of the Bank of France. Mr Duisenberg is thought to be the clear front-runner, but so far, there is no agreement among EU leaders.

The choice of president is important because it will determine the nature of the ECB. Both candidates adhere to the monetarist orthodoxy that has prevailed among central bankers since the 1970s. Therefore, from the point of view of monetary policy, neither one is preferred above the other.

But there are other factors to consider. A French president could introduce a French cabinet system – French circles of high-level advisers who act as a powerful internal caucus and who would have more influence than the career civil servants. A Dutch central banker would be expected to adhere to the Anglo-German model of hierarchical structures under which career civil servants have direct access to the politically-appointed central bankers.

All this is about power, not about policy as such. Another unresolved power issue is the relationship between the ECB's Frankfurt headquarters and the national central banks. The ECB will be only one institution in a network of central banks known as the European System of Central Banks, or ESCB.

The ESCB is modelled closely on the federal central banking system of Germany, where the *Landeszentralbanken*, state central banks, perform important functions as distribution centres, as liaison points for the regional banking system and as a valuable source of intelligence about regional economic conditions. Its presidents, the famous backwoodsmen, are powerful members of the Bundesbank's central council.

But it is the Bundesbank rather than its subsidiaries that intervenes in the currency markets, when such intervention is necessary. More important, the Bundesbank conducts the money market operations – the biweekly securities repurchase operations – by means of which it injects liquidity into the markets and fine-tunes interest rates.

This is where the Bundesbank will differ from the ECB, which will not normally engage in market operations. However, this is an area of dispute, largely between the French, who favour a decentralised system, and the Germans who prefer as much power as possible concentrated in Frankfurt. In terms of political argument it is rare indeed for France to champion decentralisation and be in direct opposition to Germany.

On this point, the French view is likely to prevail. The statutes of the ESCB, together with operating rules that were agreed subsequently as part of the preparations for Emu, appear to favour a decentralised system.

The ECB, by contrast to the Bundesbank, will be a relatively lean operation, employing initially only about 500 people, compared to the many thousands employed in other EU central banks, especially the Bank of France and the Bundesbank. It will operate on a much tighter budget than other central banks and this may not be sufficiently generous to enable it to create a power base.



Wim Duisenberg and Jean-Claude Trichet: candidates for the presidency

Financial markets are already wondering what kind of central bank the ECB will be. Mr Duisenberg has always favoured the idea of borrowed credibility; whereby the ECB takes over where the Bundesbank left off.

However, sceptics argue that the ECB will not have the same popular support in the Emu zone as the Bundesbank has in Germany. It faces a much more diverse political apparatus made up of the various EU institutions – the European Commission, the Ecofin council of finance ministers, the European Parliament, and the E-11, the group of finance ministers of the 11 likely first-wave participants in Emu.

A senior German central banker has pointed out that within such an environment the ECB is likely to tread cautiously, even if drastic action was required.

Since the Bundesbank can serve only as a limited role model for the ECB, the question arises whether it should copy the Bundesbank's operating practices. Its board structure already resembles that of the Bundesbank – an internal executive committee headed by the ECB's president, and a decision-making council that consists of the members of the executive committee and the governors of the national central banks.

How transparent should this council be? Should it publish minutes of its monthly meetings? Should it reveal how the individual

members of the council voted on particular decisions? Institutions with long track records, such as the Bundesbank, may not need such official transparency, but transparency is nevertheless achieved – by winks and nods and frequent speeches, often intended to signal a change in policy.

Whether the system of nods and winks will translate from the German into the European context, remains an open question. More likely, it will not work that smoothly, and the ECB may be forced to accept a system of communication to allow observers to understand its actions. This is especially important during the initial period of uncertainty about the operations of the ECB.

One example is the use of policy targets. Monetary targets are extremely controversial among economists, but have the advantage of being relatively transparent. If a monetary aggregate is consistently out of line with its target range, financial markets would expect corrective policy action.

The problem is that even supporters of monetary targeting, such as Oskar Lafontaine, a senior Bundesbank executive, acknowledges that it can only play a limited role in the early years of Emu, and that it should be complemented by an explicit inflation target. But dual targeting makes transparency far more difficult and the need for effective communication more pressing.

Breaking new ground

This announcement appears as a matter of record only.

January, 1998

EURO 125,000,000

European Community

Floating Rate Notes due 2008

Salomon Smith Barney acted as Lead Manager in this transaction.

February, 1998

EURO 1,000,000,000

Abbey National Treasury Services plc

Fixed Rate Senior Bonds due 2003

Salomon Smith Barney acted as Joint Lead Manager in this transaction.

SALOMON SMITH BARNEY

هكذا من الأصل

Recent monetary unions

Still surviving but with political union	
British monetary union between England and Scotland	From 1707
Italian monetary union	From 1861
US Federal Reserve system	From 1913
German unification	From 1990
Still surviving without political union	
Belgian-Luxembourg union	From 1833
West African CFA franc zone	From 1960
Failed once political system collapsed	
German monetary union	1857-1918 (First World War)
The Soviet system	1917-1992
Temporary monetary unions	
Latin monetary union	1863-1914
Scandinavian currency union	1873-1920
Other currency pegs	
Gold standard	1870-1931/36
Bretton Woods	1944-1973
ERM	From 1979
Adopt currency details	1997

* Unit changed from gold to gold in 1936

HISTORY • by Gerard Lyons

Survival depends on political union

The lessons of history suggest that the success of Emu is far from guaranteed

The European economic and monetary union (Emu) may need to become a political union to survive. This is one lesson from a historical analysis of monetary unions in the 19th and 20th centuries. Monetary unions of large sovereign nations which do not have political union eventually fail, sometimes after a long time.

Politics has been the driving force behind Emu. Since the Luxembourg prime minister presided over the Werner Report in October 1970, the irreversible fixing of exchange rates has been a central objective in European economic policy. Yet, even in 1970 it was not a new idea. A century ago Europe was also dominated by the desire for currency stability and the experience then suggests Emu's success is far from guaranteed.

Monetary unions can be divided into four categories, as shown in the table.

The first category is where political union has ensured the monetary union's success. Many examples fit this category. A recent example is German unification. Longer lasting is last century's Italian monetary union.

Italy followed political unification in 1861. The example Emu may try and emulate is the US Federal Reserve, established in 1913 as a decentralised system. The setting of twin policy mandates for the Federal Open Market Committee, as well as accountability to Congress, have ensured a credible yet flexible monetary policy. This has been supported by flexibility in the labour market and in fiscal policy, helping to create the conditions for employment growth that Europe has been unable to match.

Second, monetary unions of small countries can survive without political union, provided there has been economic convergence. Two examples are the 1923 Union between Belgium and Luxembourg and the CFA franc zone in west Africa, which has survived from 1948, helped by a substantial devaluation in 1994 following disappointing economic performance.

The third category is where the survival of the monetary union is dependent on the political system. Once the political system binding it together collapses the monetary union falls. One example is the collapse of the Soviet system, another is the failure of the 19th century German monetary union. This was one of three monetary unions which co-existed across Europe a century ago, the other two without political union. All three survived for some time.

There is a common perception that political union preceded German monetary union in the 19th century. Yet, many elements of monetary union were in place following the creation of the Zollverein in 1834, which removed all internal tariffs and created a single market, prior to German political union in 1871. Then followed the formation of the Reichsbank in 1871 and the introduction of the mark in 1876. The collapse came at the outbreak of the first world war.

The fourth category is a temporary monetary union that survives for a long time without political union but eventually collapses. The Latin and Scandinavian monetary unions from last century are examples.

The Latin monetary union was formed in 1865 between France and the closely linked economies of Belgium, Italy and Switzerland. Greece joined in 1868. It was a bimetallic union, initially based on silver and then on gold. The precious metal standard, common in old unions, reflected a commitment to fiscal conservatism and small balanced budgets. This union ran alongside Germany's monetary union until the first world war.

Denmark and Sweden almost joined the Latin monetary union but did not, because of the Franco-Prussian War. Instead, they formed the Scandinavian currency union, which Norway joined in 1875. This was the most stable of all the unions, benefiting from economic and political stability and common policy objectives. The suspension of the gold standard at the outbreak of the first world war led to volatility in real exchange rates and provided the trigger for the gradual collapse of the Union in 1920.

The lesson is monetary unions of politically independent, large sovereign nations can fail, particularly when there is an external shock, causing the economic environment to change. It is easier for unions to survive when the economic cycle is favourable. The long time during which both the Latin and Scandinavian unions survived demonstrates the importance to withstand judgment on the success of a union, until its performance can be judged in an economic downturn or when there is a deflationary shock.

There is also a fifth relevant category for Emu. This is the lesson from currency pegs or other systems. The lesson from the gold standard, Bretton Woods or even the exchange rate mechanism (ERM) is the need for flexibility, particularly when currency systems are attempting to bind together economies whose cycles and structures are different. The ERM worked well in its first phase, from 1979-87 because the system was flexible, with 11 frequent realignments. The second phase between 1987-92 appeared to work well. There was only one realignment, when the lira moved to a narrow band. Yet all that happened was that problems built up below the surface. Nominal exchange rates did not change, but real rates moved badly out of line, providing the catalyst for the system's near collapse in September 1992. Flexibility is important for any currency system.

Last year's Asian currency crisis was the latest example of the clash between domestic and external needs. Previous experience of monetary unions in Europe is that they can last for some time, but ultimately Emu must become a political union to survive.

COULD EMU COLLAPSE? • by Wolfgang Münchau

Only politics can destroy Emu

There are many doomsday theorists but Emu appears now to be well on course

Conspiracy theorists all over Europe love to speculate on the possibility that Emu will eventually collapse. Now that Emu is almost certain to start on schedule next year, the forecast of a pending disaster has replaced the previously favoured prediction that Emu would never get off the ground.

EU central bankers and monetary officials, who spent the past few years making sure that Emu will work, seem relatively unperturbed by the suggestion that it might eventually collapse. By contrast, euro-sceptic economists in the UK and the US are excited by the prospect of disaster.

Can Emu collapse? The short answer is of course it can. But do not hold your breath.

Assuming Emu starts on time next year, there will be two phases. During the first phase, ranging from 1999 until the end of 2001, national banknotes will con-

tinue to circulate alongside a virtual euro, which will only exist as a non-cash transaction currency.

From July 2002, the euro will be the only legal tender in Emu for cash and non-cash transactions. During the first six months of 2002, the two phases will overlap. After July 2002, national banknotes will no longer exist.

Discussion of a breakdown must distinguish between the two different phases. A breakdown in the final phase of Emu would be similar to a break-down of the dollar or of sterling. That would not happen unless national governments - probably backed by referendums or two-thirds parliamentary majorities - decided to pull out of Emu and reintroduce national currencies. Since these currencies would no longer exist, governments would be faced with an enormous problem. Because it took several years for central banks to prepare for the transition from national currencies to Emu, a reversion to national currencies could not be achieved overnight. It would take almost as long to get out of Emu, as it took to get into Emu.

A government would have to muster political support for an orderly withdrawal followed by a relatively lengthy preparation process.

There are other, more disturbing, but less likely scenarios. For example, Emu could break up as economic tension becomes unbearable. But those who believe in this scenario should try to put themselves into the position of future EU leaders who would have to take such a decision.

An overnight break-up of a currency zone, without preparation, would entail massive risks. There would be no banknotes ready for distribution the next day. It could entail enormous systemic risk for the financial sector. Banks would find themselves with liabilities in expensive dollars, and assets of worthless euros.

Once established, the life-or-death choices become highly asymmetric. The risk of continuing Emu will always be more calculable and more palatable than the risk of abolishing it after 2002.

In the 1999-2001 phase, the situation is not fundamentally different, despite the uninterrupted circulation of

national banknotes.

Since national currencies would remain in circulation, and since euro banknotes and coins would not yet have been distributed, a break-up of Emu would, during this phase, leave national governments free to re-issue national banknotes and coins under a domestic monetary regime. These national currencies would then presumably free-float against the others.

Walter Eklis, a UK economist, has argued that such a possibility could induce holders of, for example, lira banknotes and coins to pile into D-Mark banknotes after 1999. This could be a profitable tactic, if Emu were subsequently to break up. The assumption is that under such circumstances the D-Mark would be reintroduced as a *bona fide* currency and would appreciate sharply.

But this theory ignores some realities. First, while piling into D-Marks is possible, it would by itself not jeopardise Emu. Unlike the exchange rate mechanism, Emu cannot be driven apart by speculative attack. During the transition period, lira and D-Mark banknotes

would be denominations of the same currency, the euro. If everybody piled into D-Marks, the money supply of the euro would not change. Only its composition would change. This scenario would only be profitable if Emu were to break up for other reasons. It is, however, highly unlikely that governments would pull out of Emu so soon.

Furthermore, the scenario also misjudges the mechanism by which national currencies would be reintroduced. A break-up would be no orderly process. There would be no ERM to glue them together. There is nothing that would prevent a reborn Bundesbank treating these speculative D-Mark accounts held outside Germany as non-existent. It can be argued that these so-called D-Mark accounts would be merely denominations of a defunct euro. A newly-introduced D-Mark would be a legally different currency from the old D-Mark.

The point is that Emu can only be destroyed by a political event. Such a political event would in all likelihood only occur in times of massive economic pressure and

distortions. The sceptics are right in their assumption, but wrong in their conclusion. The chances of strong economic distortions at one point in the next 10 or 15 years, must be very high. But this does not make a breakdown of Emu any more likely. On the contrary. If faced with the prospect of a break-up of Emu, with all the risks that this would involve, EU politicians would probably choose the soft option: joint action on taxes and mutual assistance, or whatever else it takes to reduce the disturbances.

This means that, under conditions of distress, EU leaders would be far more likely to opt for what the French call "economic government" - a system of tax co-ordination, perhaps even an Emu-wide finance ministry, and a system of fund transfers to smooth the cyclical swings between booming and depressed economies.

The irony is that the conditions for the break-up of Emu are exactly the same as those that could lead to even more political and economic integration and centralisation.

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4 ECONOMIC AND MONETARY UNION

Lines of power in the Emu structure

European Central Bank

The ECB stands at the heart of Emu. It is the central bank for the entire zone, and the sole issuer of the euro, the new currency. The ECB will be based in Frankfurt, where it is expected to take over physically and legally from the European Monetary Institute, its precursor.

The ECB will be headed by a president, who has not yet been nominated. The president will be appointed by EU heads of state and government, probably at a special EU summit to be held in Brussels, May 1-3, 1998. The executive committee of the ECB will consist of a president, vice-president and four other members drawn from countries that participate in Emu. Their term of office is eight years, non-renewable, but there are different transitional arrangements for the first set of executives. The term of the first vice-president, for example, will be only four years.

The ECB's main objective, as defined in the Maastricht Treaty, is to ensure price stability. Like other central banks, it will set short-term interest rates with a view to achieving its objective. The level of interest rates will be set by its governing council, which consists of the executive committee and the governors of the participating national central banks. Under the Treaty, all members of the council must be independent from political interference. It is one of the strongest legal forms of independence ever devised for a central bank.

National central banks

Contrary to popular perception, national central banks will continue to exist and will play an important role under Emu. Together, the ECB and national central banks will form the European System of Central Banks (ESCB). Similar to the federal central bank systems in the US and Germany, the operations of the ESCB will be highly decentralised.

While the ECB's governing council determines the overall stance of policy, national central banks will retain operational responsibility. The precise share-out, however, has yet to be established. There are also different views among EU central bankers about the desired degree of decentralisation.

It is likely that large national central banks, such as the Bundesbank and the Bank of France, will play an important role in money market operations for example, by conducting regular securities repurchase tenders. With the help of these repurchase tenders the ESCB will supply the financial system with liquidity, and fine-tune the level of interest rates within the parameters set by the ECB's governing council.

Intervention in foreign exchange markets will also be conducted by national central banks, if such action is deemed appropriate.

Ecofin

This is the prime decision-making forum on macro-economic policy comprising finance ministers of all 15 member states. Meetings take place every month. They have grown in importance as the blueprint for the single currency has taken shape, and many observers believe Ecofin amounts to an economic government by any other name.

In the post-Emu world, Ecofin will be responsible for general economic guidelines, continuing the use of peer pressure to encourage budgetary rectitude. But only euro zone members will have the right to vote on sanctions against fiscal backsliders and on external exchange rate policy for the euro. Also, Ecofin faces a potential rival body - the Euro X (see below), the informal grouping of members of the single currency zone.

Euro-X

It remains unclear how the Euro-X will work in practice, but France is determined that it will play a central role in defining the common interests of the euro zone. It could have a permanent rather than a rotating chairman. On policy, it could shape the EU's response to short-term shocks or market turbulence. It could also define the common position of the majority of EU members in international institutions such as the G-7 or the International Monetary Fund. Some observers believe Euro-X is also likely to be the forum for new EU-wide initiatives in key areas such as taxation. Meetings are likely to begin soon after May 2.

Economic and financial committee

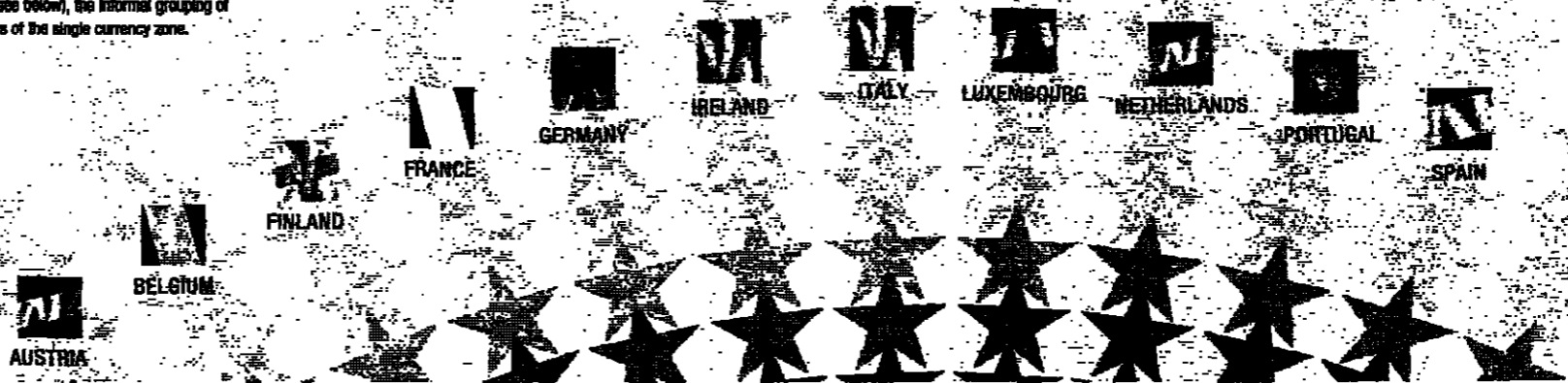
This new body will replace the secretive EU monetary committee which prepares Ecofin meetings. However, the composition of members will be the same: national treasury officials, central bankers, and two members of the European Commission. If anything, it is likely to become even more powerful if the trend toward smaller, informal meetings of ministers continues. Its composition shows that the central bankers will still exert powerful behind-the-scenes influence, despite French-led efforts to make Ecofin the political counterweight to the central bank.

European Commission

Fighting hard to preserve its role at the close of co-ordination of economic policy. The Commission will continue to prepare recommendations on broad macro-economic guidelines, monitoring member states' performance, and if necessary drawing attention to slippage. It monitors the stability and growth pact as well as analysing member states' "convergence" programmes, preparing recommendations, including possible fines. The Commission has successfully carved out a role for itself in co-ordination of employment policy, but is struggling to exercise its influence in regional representation of the euro in G7 and G8 talks.

European Parliament

Slowly raising its profile in preparation for the post-Emu world. MEPs will debate the recommendations of the European Commission on which countries qualify for Emu on May 2. They will also grill the members of the executive board of the Central Bank. Maastricht also requires the ECB president to present the bank's annual report to Parliament which can hold a general debate. The treaty also provides for regular contacts between the ECB and Parliamentary committees. The treaty sets out of the Federal Reserve-US Congress, but it will evolve.



ITALY • by James Blitz in Rome

Set to be a founder member

Italy has cleaned up public finances but now faces new challenges

Italy looks like it has done it. Barring what would now be a remarkable turn of events, the country looks set to be a founder member of the single European currency when the final decision is taken in May.

But although entry into Emu reflects the considerable achievement of cleaning up Italy's public finances, Romano Prodi's government will soon be facing a new and no less serious task. Can it carry out a range of reforms in the public and private sector that make the country more competitive in the new and more challenging euro area?

In recent weeks, as the starting date for the euro has moved ever closer, leading politicians and business figures - including Mr Prodi himself - have been switching the nation's attention to the task ahead.

Few would go quite as far as Antonio Fazio, the Bank of Italy governor, who recently predicted that life in the euro for Italy would be "purgatory". But the country faces three main challenges that need to be addressed if, at best, Italy is to thrive in the euro. And, if, at the very worst, it is not to fall out of it.

The first challenge is the one faced by Italy's public sector. For as long as anyone can remember, Italy's state sector has been among the most bureaucratic and inefficient in Europe, putting obstacles in the way of companies that want to develop plant and of local authorities that want to build infrastructure.

It can take companies months - years even - to get planning permission to build

factories. Local authorities face similar problems in trying to develop roads and facilities. It is little wonder that, faced with these problems, Italy makes the least use of any European Union state of EU structural funds. Or that some international companies think twice about investing in the country.

Realising this challenge, the Prodi administration has made a formidable attempt to cut red tape and reform the state sector. It is carrying out a sweeping reform of the heavily over-regulated commercial sector, making it easier to open retail stores. It has developed a system of one-stop shops for companies seeking planning permission in the regions so that red tape can be dealt with swiftly. It is implementing a big devolution of powers from Rome to the regions to create more flexibility when planning at a local level. Many of these reforms are only just passing the legislative stage. The next few months will determine whether they are being effectively implemented.

The second main challenge faces the private sector. Here the concern is that specific sectors are deemed too uncompetitive compared to their EU counterparts. Banking is the biggest worry. Until recently Italy had nearly 1,000 banks, with the leading ones moulded around the Treasury in the state sector and Mediobanca in the private sector. But new alliances are being formed, among others, between San Paolo and IMI or between Mediobanca, Banca Commerciale and Assicurazioni Generali. These mergers are a sign that the banks see the need for consolidation if they are to compete with their counterparts in the EU. But Mr Prodi has recently admitted that far more consolidation is needed.

The third challenge is the one faced by Italy's public sector. For as long as anyone can remember, Italy's state sector has been among the most bureaucratic and inefficient in Europe, putting obstacles in the way of companies that want to develop plant and of local authorities that want to build infrastructure.



Romano Prodi: switching attention to the task ahead

The third concern - and one which involves both the private and public sectors - is the need to boost development in the south. The main fear here is that, without an improvement in business conditions, the south could fall victim to external economic shocks if, say, the generally wealthier euro area tightens monetary policy.

The challenge in the south has many facets. The government needs to crack down on organised crime and the black economy if it is to encourage Italian and foreign companies to invest in the region. It needs to boost the area's road and rail links, amid fears that infrastructure here is the poorest in the country. Above all, it needs to free the rigid labour market, which has ensured that areas of the south still have 25 per cent unemployment.

Easing these labour market rigidities is arguably the most important challenge of all, not least because too few southern workers travel north to meet the desperate

need of companies there to fill jobs. One reason they fail to take up this challenge is that the cost of living in the north is far too great to warrant a move for both private and public sector employees. A second reason is that employees are reluctant to leave large family homes where the head of the home has traditionally had a good pension or public sector salary. Within the state sector there is, above all, the problem of a lack of wage differentials between jobs in the south and north for the same type of work, discouraging southern workers from moving on.

Italian ministers have been hinting, in recent weeks, that they want the public sector to give a lead in this area, possibly giving higher salaries to workers if they take up a job elsewhere in the country. Such a move would need the approval of unions. It might mark a fresh start. But few doubt that the task of reforming the labour market and the southern economy will be a long and hard one.

FRANCE • by Robert Graham in Paris

Bottom of the euro class

The Jospin government has some way to go to improve its performance

France comes pretty near bottom in the score-card of performance on achieving the criteria for joining the euro single currency.

Alone among the leading European governments, France opted for a "soft" approach to compliance with the budget deficit target - the central criterion by which EU members believed they would be judged.

On taking office last year, the Socialist-led Jospin government briefly hesitated whether to continue France's commitment to the existing timetable for economic and monetary union (Emu). But once prime minister Lionel Jospin decided to endorse Emu, he made it clear he would not impose budgetary austerity at the expense of dampening the beginnings of a much-needed economic recovery.

As a result the economic team under Dominique Strauss-Kahn, the minister of economy, finance and industry, formulated a policy which sought to balance a small budgetary squeeze with some expansionary measures stimulating domestic demand. The budget deficit was targeted at the equivalent of 3.1 per cent of GDP, marginally above the 3 per cent ceiling laid down in the Maastricht Treaty.

Although a modest objective, government economists pointed out that a special report commissioned last July estimated the deficit could reach 3.8 per cent of GDP at year end and if the current trend in receipts and spending were left uncorrected. If such a projection is taken at face value, the cor-

rection carried out has been more substantial than originally expected. But independent economists suggested the deficit estimate was too pessimistic and took insufficient account of the rise in treasury receipts as a result of the recovery under way. Whatever the truth of the matter, the government's policy has been vindicated. In the second half of last year, the export-led recovery was overtaken by a strong push from domestic demand. Exports accounted for only 0.4 per cent of the 2.5 per cent second half growth, compared to 1.5 per cent (and minus 0.1 per cent for internal demand) in the first half. Meanwhile, a combination of the economic recovery and increased corporate fiscal pressure boosted treasury receipts to 3.025 per cent.

This deficit figure was artificial to the extent that Brussels had already agreed to allow the inclusion of a FF737.5bn (\$6.3bn) transfer from the France Telecom pension fund - the equivalent of 0.5 per cent of GDP and the once-off transfer has had to be compensated by finding an equivalent amount for the 1998 budget just to remain in line with the 1997 deficit performance. As it is the 1998 deficit is projected at 3 per cent, one of the highest among the EU 15.

The 1997 accounts also reveal the continuing heavy burden of the social security deficit which stood at FF724.4bn. Although some FF740bn less than expected last July, the corrective measures will have little overall impact on the structure of spending. Indeed, so far the government has introduced little structural change in expenditure.

This in turn throws the

spotlight on France's ability to bring the deficit down further in a sustainable manner as demanded by monetary union. The public sector wage bill absorbs some 40 per cent of budget outlays. In the run-up to the March regional elections the government agreed to a 1.3 per cent pay increase for 1998 and a similar amount for 1999. This will almost certainly be above inflation which on latest estimates could hover around an unprecedentedly low 1 per cent this year. In addition, seniority payments in public sector employment are calculated in such a way as to increase further the cost of implementing the pay deal.

As a result the economy ministry admits the effect of the pay accord - plus continuing demands on the treasury for welfare payments - will leave no room for manoeuvre. This is despite greater than expected receipts generated by economic growth set to be 3 per

cent or even more. Any reduction in France's high rate of personal and corporate tax is ruled out.

The other factor conditioning the "sustainability" of France's deficit is the steady rise in the ratio of debt to GDP. Despite low interest rates the debt stock continues to grow incrementally, currently standing at 58 per cent of GDP. While below the 60 per cent of GDP ceiling fixed for the Maastricht criteria, France's debt has been on a strong upward curve. In 1991 debt was a mere 36 per cent of GDP.

Dominique Strauss-Kahn said recently the curve should be inverted after 2000. To achieve this he warned France would have to aim for a budget deficit equivalent to 2 per cent of GDP at the beginning of the century. Thus, while France is set to be a core member of the euro, the Jospin government has still some way to go to improve the performance of public finances.



Lionel Jospin: opted for a soft approach to compliance

GERMANY • by Peter Norman in Bonn

Waigel triumphs against the sceptics

By the time of the election in September, the victor's hands will be tied

Rarely in recent months has Theo Waigel, Germany's finance minister, looked so happy.

The news, released on February 27, that Germany's 1997 public deficit was only 2.7 per cent of gross domestic product and thus comfortably below the 3 per cent limit set in the 1992 Maastricht Treaty for economic and monetary union meant he had triumphed against the sceptics.

The minister was also untroubled by the increase in Germany's total public debt to 61.3 per cent of GDP in 1997 from 60.4 per cent in 1996. Although moving away from the Maastricht Treaty limit of 60 per cent of GDP, Mr Waigel was confident the debt figures would not stymie Germany's chances of helping to launch the single currency on schedule on January 1 next year.

The debt ratio had been swollen by about 12.9 percentage points through burdens inherited from former communist east Germany, he explained. Without this load and debt rescheduling for former communist countries and the transfer of state railway debts to the

Bonn government, Germany's overall debt would have been between 46 and 47 per cent of GDP.

But does Germany's apparent ability to meet the Maastricht criteria really mean it is fit for such a momentous change as Emu? The labour market data for January, released a week after the deficit and GDP figures, were a reminder of the structural challenges facing the country. For the second consecutive month, "headline" or seasonally unadjusted unemployment was a record 4.82m or 12.6 per cent of the working population.

Germany's structural problems are legion. A rigid labour market, a generous but costly social welfare net that generates high non-wage labour costs for employers, a complex and inequitable income tax system, excessive red tape and an underdeveloped service sector, coupled with the costs of unification, have created a nation that finds it difficult to adapt quickly to change.

True, last year saw a boom in German exports that generated the biggest visible trade surplus since unification in 1990. But exports have so far done little to enliven the depressed domestic economy where private consumption increased a miserly 0.2 per cent last year.

Recognising the problems, Theo Waigel: untroubled by the increase in total public debt

the government drew up a programme two years ago to correct Germany's many supply side deficiencies.

But while there has been some progress, notably within companies where more flexible working practices have been introduced in a bid to preserve jobs, many vital reforms are in abeyance. These include a planned overhaul of the tax system which fell victim to Bonn's legislative gridlock caused by the opposition Social Democratic party's

use of its majority in the Bundesrat, the second chamber of parliament, to block government initiatives.

With policy making largely on hold until after the September 27 general election, Germany is entering the last lap of Emu preparation with little prospect of shifting the legislative bottleneck on reform.

It is a situation that concerns many. Last month, 155 academic economists signed a letter to the Financial Times in which they urged

an "orderly postponement" of Emu because of the worsening of Europe's structural problems since 1991.

They pointed out that "Germany and France - the driving forces of European integration - are not well prepared to cope with more rapid structural change and the stiffer competition in a monetary union". The professors stressed that German labour markets needed to become more flexible and called for more work on budgetary consolidation.

The German chambers of industry and commerce (DIHT) have identified the failure of tax reform as a brake on the economy. Others doubt whether Germany's pay-as-you-go pension system can be compatible with the long-term health of Emu, if, as is certain, the ratio of pensioners to working people continues to grow.

According to Klaus-Dirk Henke, a professor of finance and economics at the technical university of Berlin, tax systems and social security systems will be increasingly important as determinants of competitiveness among Emu member states.

In these circumstances, the government of Helmut Kohl, the chancellor, is making a virtue of necessity. Instead of fretting about the relative lack of progress towards structural change in Germany, it has decided that

the euro must serve as a catalyst for reform.

This is a politically risky strategy in a country where opinion polls continue to suggest that about two thirds of the electorate would prefer the D-Mark to the euro. It could have serious implications for the sustainability of a stable euro, in the event of a change of government to an SPD-led administration in September.

Although the SPD's policies have still to be finalised, Gerhard Schröder, the candidate for chancellor, has indicated that he will roll back some of the government's supply side reforms in the area of social policy and has outlined a far less radical tax reform than Mr Kohl.

By the time of the election, the main Emu decisions will be taken, tying the victor's hands to a considerable degree. But there could still be tensions because of Germany's structural deficiencies.

Reimut Jochimsen, president of the state central bank in North Rhine Westphalia and a member of the Bundesbank's decision-making central council, is a noted doubter on Emu. But his observation that "starting Emu on time will be child's play compared with the huge and continuing challenge of keeping the euro stable on a sustainable basis" has the ring of truth.

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Alan Verschoyle-King: no message from clients on what is wanted

FINANCIAL SECTOR • by George Graham

Flashes of subdued panic

Institutions are worried about the many details which still need to be clarified

With only nine months left until the arrival of the euro, bankers are starting to experience flashes of subdued panic at the sheer volume of work which remains to be done.

While almost every financial institution in Europe expresses public confidence that it will be ready in time to start doing business in the new currency on January 4 next year, many worry about the number of details which have not yet been determined. Many, too, harbour lingering doubts about the preparedness of their counterparties and of the payment systems they use.

"We won't be ready. We'll cope, but we won't be really ready," confessed the IT chief of one European investment bank.

The overarching issues, such as the principle that contracts should not be voided by the change from national currencies to the euro, have been resolved.

But a welter of detailed issues still needs careful attention.

What page on the Reuters or Bloomberg information networks will carry the new price references such as the Euribor and euro Libor interest rates? The issue is important because some derivative contracts stipulate the prices published on specific pages.

What arrangements will be observed for holidays? The Target euro payment system linking European central banks has already made it clear that it will close only on Christmas and New Year's Day, but the option remains open for national payment systems to close on other days, and there is still much uncertainty about trading holidays for national financial markets.

Perhaps most crucially, when exactly will the final announcement be made on the euro's exchange rates? Bilateral rates between the currencies that will join the single currency are to be announced in May, but it is already laid down that one euro will equal one ecu, and the ecu basket includes currencies which will not be joining in the first wave. That means that exchange rates of national currencies against the euro cannot be fixed until trading has ended for the year.

With several European markets shut on December 31 this year to provide more time for conversion, this could mean closing rates on December 30. It could also mean rates at lunchtime on December 31, when other markets will shut, or even the end of the trading day in New York, hours later.

The uncertainty adds to the pressure during the conversion weekend, which promises to be one of the longest many banks' back office and systems staff have ever lived through.

"It is clear that skiing is off next year," says David Clementi, deputy governor of the Bank of England.

Curiously, some of the more advanced IT systems may prove to be a handicap. Martin Wise, director of the Emu project at Merrill Lynch, the US investment bank, points out the already tight timetable for the conversion weekend is shortened still further for banks with global trading systems: they will not be able to start the conversion process until New York has closed on

December 31, and must be ready by the time Asian markets open on January 4, whereas a purely European system would have precious extra hours at either end.

"Ironically, those fragmented systems which most of us dream of replacing may turn out to be a competitive advantage," says Mr Wise.

Once the conversion is out of the way, the challenges posed to the financial sector by monetary union will have only begun. Bank treasury departments are still working with their clients to figure out how their demands for cash management and payment services will change in the euro zone.

Alan Verschoyle-King, of Bank of America, says that companies' views on the impact of the euro vary considerably. "There is no single message from clients about how they want their banks to react. Only in the last few months have we started seeing industry trends - for example, the transportation sector is more concerned with the underlying transactions where the energy sector is more concerned with cash balances, because they are dealing in such huge sums," he says.

Although several central banks would like Target to become the principal high value payments system for the euro, most banks are hedging their bets and signing up for a variety of different payment mechanisms. Options include the updated version of the Euro Banking Association (EBA) ecu clearing system, which is cleared through the Bank for International Settlements in Basle but will move to the European Central Bank, as well as national systems such as the euro branch of Chaps, the high-value payments system in the UK.

This is partly because of uncertainty about whether all the national systems which are to feed into Target will function effectively - tests with the French real time gross settlement system have alarmed many payments specialists - but also because clients may have different requirements. Some may prefer a net end-of-day settlement system such as the EBA over Target, which offers the immediate certainty that a payment has arrived but is likely to cost more.

Indeed, Martin Leboutz of Chase Manhattan's treasury solutions division points out that a payment from one French account to another could in future be routed through the bank's Frankfurt payments hub, rather than staying in the French clearing system.

"It blurs considerably the distinction between what is a cross-border and what is a domestic payment," Mr Leboutz says.

Although banks have another three years to get ready for the full-scale introduction of the euro at the retail level, some lines are already being drawn in this sector, too.

Partly under pressure from the European Commission, which was worried consumers would revolt against the euro if they thought the conversion would cost them, banks have promised not to charge customers for changing their accounts into euros.

"We will certainly not take advantage of this change-over to the euro to rip off our customers," said Nikolaus Böhmke, secretary-general of the European Banking Federation, which has promised only to use the has promised only to use the official conversion rates and not to charge except in rare cases where a "substantial service" is involved.

PROFILE Chase Manhattan

Helping hand for single currency

Almost as soon as it was clear that Emu was going ahead, Chase, the giant US bank, took two basic decisions. At the practical level, the bank would be fully prepared right across its global business for the arrival of the euro on January 1, 1999. At the strategic level, Chase would treat the new currency as an opportunity to try to steal a march over competitors.

For almost two years the bank has invested thousands of working hours in meeting those objectives. The eventual estimated cost is put at about \$75m. Chase set up a bankwide steering committee and an Emu project office which reported to Bruce Hannan, the head of the bank's Global Treasury Unit. Mr Hannan is a member of the bank's senior policy council, which reports to the board.

The man in day-to-day charge is Anthony Davies, the Emu project manager, based in London. Appointed in 1996, Mr Davies admitted that he approached the

myriad complexities and uncertainties of the task with some trepidation. "The start, to be honest, was a matter of getting to grips with the mountain of information and uncertainty that was out there."

It quickly became apparent that there was only one way of reducing the job to a human scale. Each product had to be disassembled to analyse the possible changes Emu might bring through the product's life-cycle "from price source to payments". In Mr Davies' words, the product - whether foreign exchange, a swap or a security - could then be reassembled to incorporate necessary changes across the bank's global business lines. Discipline would be maintained by drawing up a common schedule for the whole bank.

The timetable called for a definition of the business changes by mid-1997, followed by identification of the functional requirements in the autumn and development of the vital

supporting systems by the end of last year. Coding was due to be completed by early 1998, and testing of the revised products and systems by their users within the bank will start soon. Integration testing - making sure all the components fit together - is scheduled for June and July. Full dress-rehearsals are planned for November, leading up to the moment of truth - the "conversion weekend" of January 1-3, 1999.

Breaking down the products into their component parts was painstaking. Nigel Knight, product and project manager for the euro in Chase Treasury Solutions, a key part of the bank, said that in his area alone some 40 different products had to be analysed. Moreover, few bank products these days are "pure". Many are hybrids which touch on more than one of the bank's global business lines.

So Chase formed product groups which brought together experts from different backgrounds around the

bank. Mr Davies said: "You had to take a product out of its traditional home and create a multidisciplinary body to analyse it." The leaders of these groups also conferred with outside experts and customers.

Indeed, consultation with clients has been a theme of Chase's policy, partly to make sure that changes work and partly to keep an eye on the competition. Mr Knight said: "All our thinking throughout this process has been to see it as a strategic opportunity, not just a defensive need."

The bank identified two different types of change: mechanical and strategic. Mechanical changes covered items such as holiday dates, number of trading days, and redenomination of currencies into euros. All systems had to cope with these adjustments.

Strategic issues were more closely related to the bank's goals. How might the market change? What did customers want? Where was there scope for new products? Could current product

prices be converted directly into euros, or would adjustments have to be made for different markets? One essential decision made on the vital Treasury Solutions side was to adopt a hub approach to clearing.

Instead of each of Chase's operations in Emu member countries dealing separately with local clearing systems, business would be funnelled through Frankfurt and processed at the bank's existing centre in Bournemouth.

After a while, however, Mr Davies said, a number of overarching issues began to emerge. These included continuity of contract when a product was redenominated into euros, settlement instructions, price sources, and governing law. Such questions had to be addressed regardless of where a deal might arise in Chase's global network.

But substantial uncertainties remain, Mr Knight believes that customers might decide to change their settlement instructions after January 4, 1999, the first



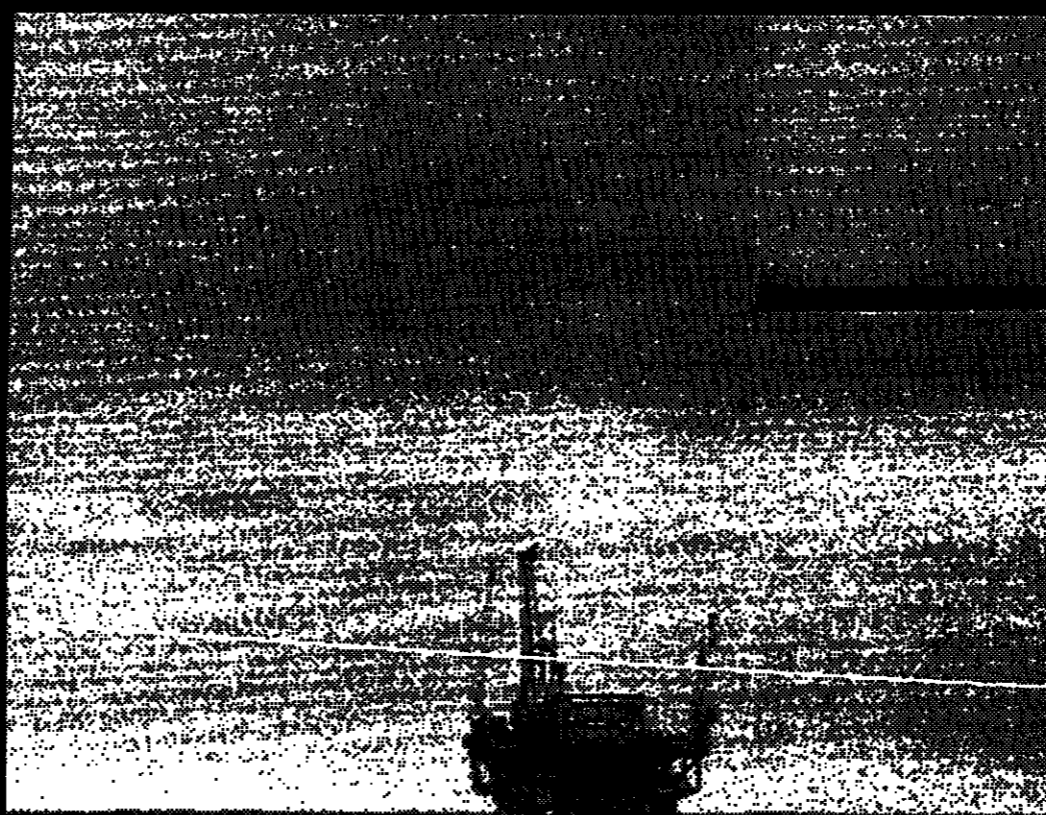
Anthony Davies: the man in day-to-day charge

working day for the new currency. He said: "The world changes very dramatically on January 4, 1999 because you can't implement settlement instructions ahead of that."

The bank had no choice but to embrace the euro - and even, as a leading global institution, felt a duty to help the new currency into the world. But Chase will be sorely disappointed if its elaborate preparations do not also yield new business.

Michael Prest

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6 ECONOMIC AND MONETARY UNION

FISCAL POLICY • by Lionel Barber in Brussels

Harmony a sensitive issue

Tax policy is one of the last bastions of national sovereignty

Now that Emu is within reach, a familiar question arises: will the single currency lead to a harmonisation of fiscal policy?

Almost 10 years ago, a committee of central bank governors under the chairmanship of Jacques Delors, European Commission president, left the matter open. They preferred to agree on a blueprint to launch the euro rather than disagree over its likely consequences.

The politics of fiscal harmonisation or fiscal co-ordination are delicate. Tax policy is one of the last bastions of national sovereignty. All decisions must pass the unanimity rule in the EU, which is why progress in areas such as value added tax has been halting at best.

But once Emu becomes a reality, the link between the single currency and the single market will become more explicit. The competitive forces unleashed by Emu – notably price transparency across borders – will make all governments more sensitive to accusations that others are using unfair methods or policies to gain advantage. Tax regimes present inviting targets.

One of the more remarkable developments of the past 12 months is the way in which tax policy has crept to the top of the EU agenda. Governments and the European Commission have begun to anticipate the impact of the single currency, starting with a joint approach toward "tax poaching" or harmful tax competition.

The breakthrough came last December in the run-up to the EU summit in Luxem-

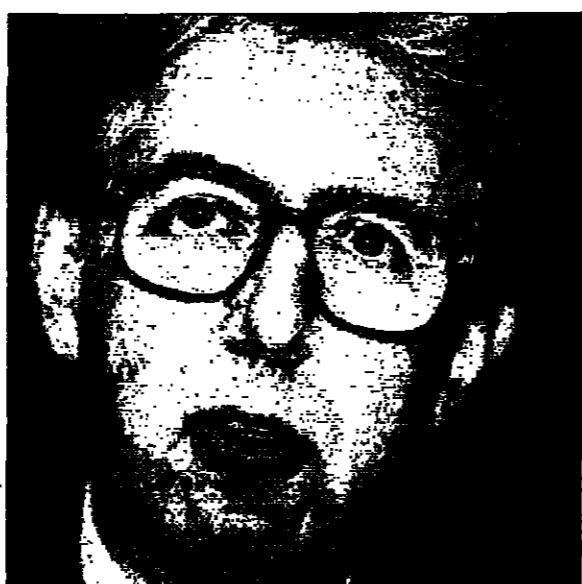
bourg. EU finance ministers agreed a voluntary code of conduct on business taxation; a commitment to consider a minimum withholding tax on non-residents' savings income; and an agreement to discuss a directive making it easier for companies to transfer interest and royalties across borders without the risk of double taxation.

The impact of the deal was softened by several unilateral declarations by member states. Ireland insisted on a five-year deadline for phasing out its 10 per cent tax rate for manufacturers which France and other countries insist is siphoning off investment. Luxembourg declared it would not accept the introduction of any EU-wide withholding tax unless it is balanced by legislation to enforce a minimum corporate tax regime – an argument rejected by Ireland and most likely other countries, including the UK.

Despite these escape clauses, work on tax co-ordination is edging forward under the guidance of Mario Monti, the methodical and cerebral Italian commissioner responsible for the single market. This month, he unveiled proposals for a directive eliminating withholding taxes on payment of interest and royalties between associated companies.

Mr Monti is also contemplating the content of the coming directive on withholding tax on foreign savings. The latter is based on a French initiative which seeks to deal with the conflicting demands of banking secrecy and the need to exchange information among EU tax authorities.

The approach would allow, say, a French saver to pay withholding tax in Luxembourg, most likely set at a stiff level to compensate for the privilege of remaining



Mario Monti working on tax co-ordination

anonymous. Alternatively, the French saver could pay tax direct to the French authorities, thus removing all doubts about tax avoidance. It looks like a neat solution, but important practical questions remain on who gets what share of the revenue.

Mr Monti hopes to reach a broad agreement by the end of the British presidency at the end of June. He believes that momentum should pick up over the next 18 months because the three governments in the EU chair – Austria, Germany and Finland – are nominally committed to advancing tax co-ordination. More important, all are certain to participate in monetary union.

But Mr Monti is not putting all his eggs in the legislative basket. The code of conduct remains a useful means of applying collective pressure to limit predatory tax competition. Hence the imminent creation of a new EU-wide peer review group meeting not less than twice a year. With luck it could be as effective as the peer pressure which member states have used to great effect in the drive to reduce public deficits and debt ahead of Emu.

The dilemma is how far to go. The single currency means the end of differentials in national interest rates and national exchange rates. Tax policy will be the last discriminating element between countries. Why

should countries such as Ireland be penalised for seeking comparative advantage through tax havens such as Dublin Docks?

On the other hand, influential politicians such as Jean-Claude Juncker, prime minister of Luxembourg, argue that Emu will force greater harmonisation of economic policies across-the-board. The logic points to some agreements or understandings on minimum standards on tax and social security just as they apply to EU social policy. After all, Emu does not just stand for monetary union: it means economic and monetary union.

Finally, EU-wide directives seeking to limit predatory tax competition will be ineffective unless they are extended to other OECD countries, notably Switzerland. Without a common tax regime, money would simply flow out of the member states into safer havens such as Geneva or Zurich. In this sense, the announcement that it was reviewing the status of the Channel Islands could be a straw in the wind.

In a world of global markets, instant communications, and volatile money, European governments are discovering that greater fiscal co-ordination – if not actual harmonisation – is one step toward recapturing sovereignty. We can expect further progress, however halting.

MONETARY POLICY • by Wolfgang Münchau

Confused target practice

The choice of monetary policy instrument is one of the many uncertainties

One of the many uncertainties about economic and monetary union is the choice of monetary policy instrument.

Two differing methods are on offer: monetary targeting and inflation targeting.

Under monetary targeting, the central bank targets monetary aggregates, usually a measure of broad money supply such as M3, which includes cash, current accounts and sight deposits. Monetary targeting is based on the monetarist theory that growth in money causes inflation with some time lag.

Unfortunately, monetary targeting has failed in some countries, notably the US and the UK, largely because deregulated capital markets played havoc with the money variables. As a result, monetary aggregates such as M3 and M4 have proved far less reliable in the US and the UK than they did in Germany, where there was significantly less activity in the short end of the money market.

This gave rise to the birth of inflation targeting, where the central bank tries to achieve a pre-point landing on a chosen rate of inflation, which can be set by the government. This system operates in the UK, in Sweden, Finland, and in New Zealand.

With the UK and Sweden not taking part in the first wave of Emu, it appeared at one point that the ECB would adopt the time-honoured German system. The European Monetary Institute, the ECB's forerunner, has left the choice between the two open. German central bankers have been drumming up support for years in favour of monetary targeting. It is no doubt the system of choice among elderly central bankers. But time has moved on.

The trouble is that the neat relationships between money supply and the rate of inflation may break down under a regime change, such as Emu. This particular phenomenon is known as Goodhart's Law, named after Charles Goodhart, professor of finance at the London School of Economics, who discovered in the 1980s that the relationship between money supply and inflation breaks down as soon as one adopts the money supply as a target variable.

Goodhart's law is a special



Charles Goodhart: Emu imposes a one-size-fits-all policy



Eddie George: Emu imposes a one-size-fits-all policy

version of the Lucas critique, named after Robert Lucas, the 1995 winner of the Nobel Prize for economics who is famous for his observation that a change in policy fundamentally alters the structure of econometric models.

Fortunately, Europe's top central bankers are aware of the pitfalls that may result from the pending regime change. Otmir Lissing, one of the most respected members of the Bundesbank's executive committee, acknowledged recently: "Because of the great uncertainties at the beginning of economic and monetary union, a monetary target should be complemented by – as I would call it – an inflation forecast."

Hervé Hannoun, deputy governor of the Bank of France, told a Financial Times conference last autumn that there is "no safe guidance for the starting period of Emu in so far as the move constitutes a change of regime which might lead to breakdowns in empirical relationships".

EU central bankers are concerned about having to rely on a single variable. Any policy action that might result either in an unaccept-

able rise in unemployment, or an unacceptable rise in inflation, would seriously impair the credibility of the ECB, let alone its popularity.

Proponents of monetary targeting have argued that the pooled money demand equations across the EU countries produce a relatively stable pattern. Some point to statistics which demonstrate that M3, the Bundesbank's preferred money variable, is far more stable across the EU than in Germany itself. This observation has led several commentators to proclaim that monetary targeting may be safe.

With his keen sense of paradox, Prof Goodhart has debunked this observation. It is based on an econometric error, he says. One can pool the money data of any group of nations and observe a statistically more stable pattern. A near equivalent would be a stock market portfolio of 10 stocks, which would probably show significantly less volatility than any one of the stocks.

Monetary policy is a treasure mine for paradoxes. Ivo Arnold, a Dutch economist, argued it was the success of the Bundesbank that gave credibility to monetary targets, and not the other way round. He said that if the ECB were to adopt monetary targeting, it could end up with extremely unstable economic relationships at a time when it will not yet have achieved credibility.

"The bottom line is that the Bundesbank can afford to regularly miss its monetary targets, the ECB cannot," he said.

Economists disagree on many things, but they tend to disagree more on monetary policy. As a result this issue will remain unresolved for some time.

Central bankers often say that it does not matter. They

say that interest rate decisions are ultimately judgment calls, based on instinct as much as analysis.

While this is probably true, it could upset the relationship between the central bank and financial markets if driven to extremes. The great advantage of monetary targeting has been the transparency of the process. If money expands at too rapid a rate, the markets tend to expect a tightening in policy unless convincing reasons suggested otherwise.

Inflation targeting, by contrast, requires more analysis and explanation. Because it is a more technical process involving a good deal more forecasting, it is favoured by many academic economists, who tend to belittle monetary targeting as a form of voodoo. The supporters of monetary targeting often presented their case with such zeal that they gave the impression of advocating a system of belief rather than a system of economic policy.

Where will this confusion lead? Probably to a discretionary approach initially, to be followed by a system of inflation targeting. The system has to be invented from scratch, and it also has to work for 11 and soon 15 diverse economies. It is inconceivable that a single crude measure of money supply, such as M3, will have much information value.

As researchers in the International Monetary Fund recently found, the transmission mechanism between monetary policy and the real economy of growth and jobs still varies significantly across the EU. In the words of Eddie George, governor of the Bank of England, Emu imposes a "one-size-fits-all policy". Emu can do without a one-size-fits-all policy variable.

EXCHANGE RATE POLICY • by Simon Kuper

Euro likely to fluctuate

The exchange rate will not be the top priority of policymakers – inflation will

The foreign exchange market often asks itself whether the euro will be a hard or a soft currency. But perhaps it should ask first whether policymakers will care either way. "Euroland", made up of the 11 countries expected to introduce the euro, will be a fairly closed economy. Only about 10 per cent of its gross domestic product will consist of trade with countries using other currencies. For comparison, about 35 per cent of German trade is now cross-border.

In other words, however wildly the euro fluctuates against the dollar, it will have only a modest impact on the European economy. Of course, policymakers would prefer a tame currency. At times they may try to talk the euro up or down. But the exchange rate will not be their top priority – inflation will.

For the treaty of Maastricht specifies that the main aim of the future European Central Bank will be "price stability". The treaty adds that the bank should support the economic policies of Euroland, but only if that aim does not conflict with price stability.

So even if European central bankers wanted to manage the euro's exchange rate, they would have little power to alter interest rates for that purpose.

Not is there much risk of politicians leaning on them to move the currency. Another Maastricht clause says that the bank should not "take instructions from Community institutions or bodies, from any government of a member state or



Martin Brookes and Jim O'Neill: 'On paper the ECB is the most independent central bank in the industrialised world'

any other body". It also must not finance deficits. Jim O'Neill and Martin Brookes at Goldman Sachs conclude: "On paper the ECB is the most independent central bank in the industrialised world." And the authors note evidence that "the more independent a central bank, the lower inflation is likely to be".

US currency policy of the past few years offers a fair guide to what European policy may be. The US is still a relatively closed economy, with trade amounting to only about 15 per cent of GDP. The Federal Reserve has become an increasingly independent central bank, with its main target low inflation. And so US policymakers have recently barely bothered to manage the dollar. As a consequence, the currency has been free to sink and then soar against the D-Mark and yen.

In short, the euro is likely to be a volatile creature, particularly in the early years before monetary union is taken for granted. European companies may have to hedge against sharp moves in the exchange rate.

And most of those moves could be appreciations. A



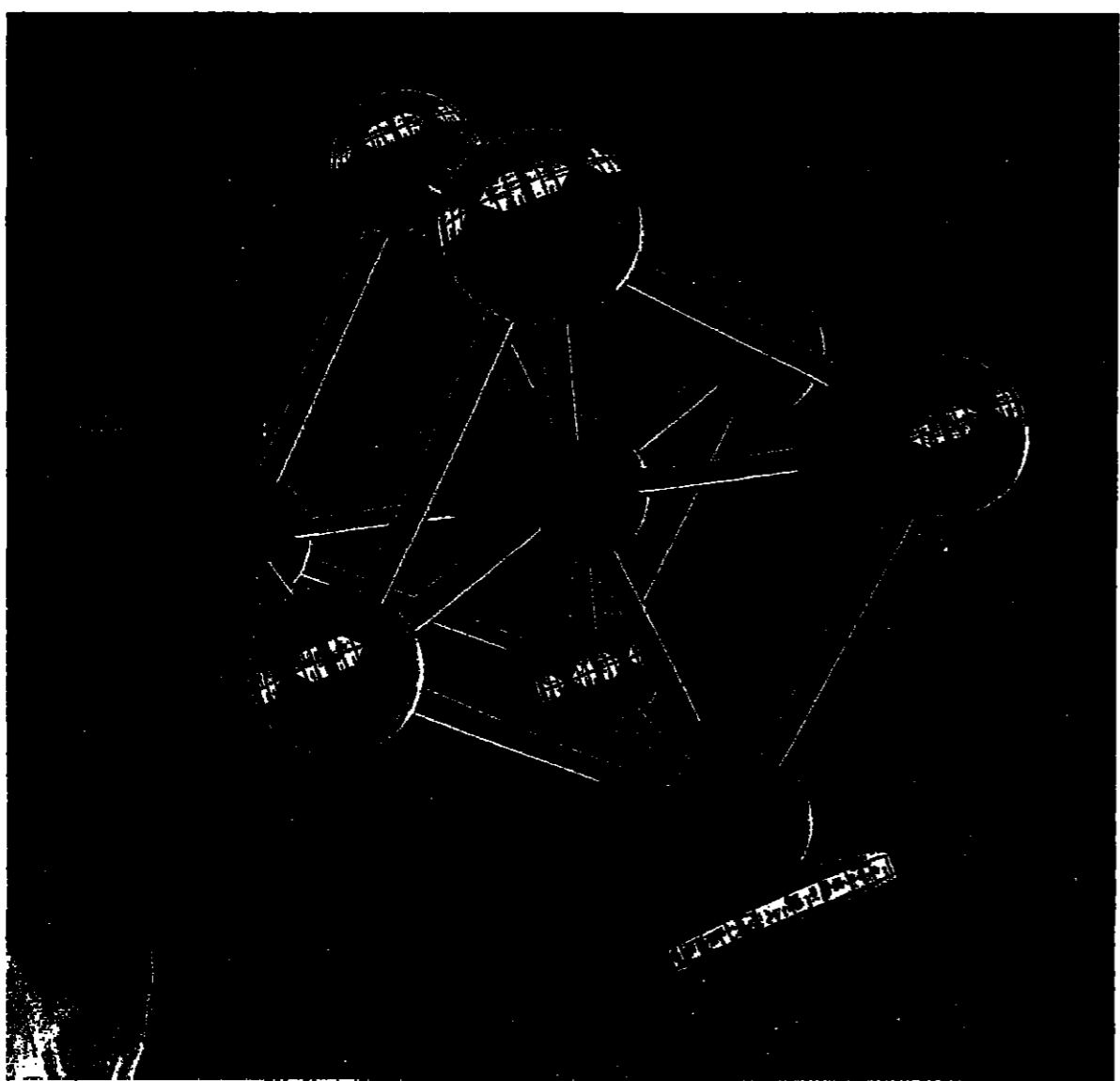
faster than the US. Emu should start under a prosperous sign.

As European growth accelerates, Euroland is likely to import more. For the moment, however, the 11 states are running a joint current account surplus worth about 1.5 per cent of their GDP a year. This means that in net terms, companies across the world are having to convert dollars into euros to pay their trading debts. That should spur the new currency higher.

Furthermore, most economists agree that the euro will eventually at least come to share the dollar's status as the world's reserve currency. Today, central banks hold about 60 per cent of their \$1,400bn in foreign exchange reserves in dollars, compared with just 20 per cent in European currencies. When the euro becomes the currency of the world's largest economic bloc, the banks are likely to want to hold more of it. Investors may follow suit. Fred Bergsten, director of the Institute for International Economics in Washington, predicts that \$500bn to \$1,000bn of global portfolios could flow into the euro.

That should more than offset any early flight out of the euro from investors waiting for the currency to prove its worth.

Avinash Persaud, head of foreign exchange research at J.P. Morgan in Europe, has noticed yet another euro-friendly force: the US expects to balance its budget this year. At first glance that looks like a boon for the dollar. However, if Washington does stop borrowing, the US will redeem more Treasury bonds than it issues. That would help the euro, says Mr Persaud, because less foreign money will be converted into dollars to buy Treasuries.



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55 من الأصل

EMPLOYMENT • by Robert Taylor

Growth in work force predicted

In welcoming Emu, trade unions also recognise some adverse effects on employment

The arrival of European economic and monetary union ought to provide a strong stimulus for an acceleration in the convergence of Europe's diverse labour markets. It seems likely to encourage greater worker mobility as well as the harmonisation of basic labour standards. It ought to produce more realism in wage setting, stimulate higher productivity growth and help to contain and even reduce overall labour costs. In addition, the stability and cohesion expected from the creation of a common currency should help to encourage employment growth.

These arguments are not just held by many employers and economists in the EU but also, perhaps more surprisingly, by the trade unions. "Investors and traders are more likely to respond to reduced uncertainty with Emu by increasing their cross-border activities," argues David Foden at the European Trade Union Institute (ETUI). He also points out that trade unions have never favoured a return to the days of high inflation.

But this does not mean they are sanguine about the original Maastricht convergence criteria for economic and monetary union. Indeed, the trade unions recognise the adverse effects on employment of the transition to Emu. As Giuseppe Fajertag, economist at the ETUI explained recently: "Most member states would not have been able to qualify for the final stage of Emu unless they could achieve further cuts and savings in public expenditure. This further squeeze generally trans-

lated into slower economic growth, cuts to welfare payments, further reductions in disposable income and a negative impact on jobs."

Understandably, the trade unions are not likely to relish a prolonged period of deflation based on continuing austere budgetary restraints if this leads to the creation of more mass unemployment. But Emu's likely impact on employment remains a subject of wide conjecture.

Julian Callow, economist at Dresdner Kleinwort Benson, believes fixed exchange rates and interest rates averaging at a European level will encourage investment in low labour cost economies inside the Emu. "Stronger direct investment flows will bid up wages in France, Italy and especially Spain and Portugal while workers in high labour cost countries will continue to be obliged to accept low wage deals in return for job preservation," he argues. But he also forecasts that low interest rates in southern Europe will strengthen wage push, consumption and investment growth.

There is also a wide consensus that regards Emu as a necessary external discipline that will increase the pressures for greater flexibility in European labour markets. It will be much harder for uncompetitive industries to maintain high levels of social regulation that impede employment creation but also over-compensate workers at the expense of those without a job.

The EU's new approach to work reorganisation with its emphasis on making workers more employable through increased education and training, and encouraging small and medium-sized enterprises with tax incentives are in line with what is seen as a necessary agenda if Emu is going to become



Julian Callow: Investment will bid up wages in some countries

more competitive on global markets. There are already some signs of moves towards what is being called a "European wage area" across borders. The most significant development has been in Belgium where a new law reforming the country's pay bargaining system to "safeguard competitiveness and promote employment" has indicated wage deals should be negotiated up to a maximum based on the average pay increase in Belgium's three main trading partners - Germany, France and the Netherlands. Recently, tentative bargaining has taken place linking the German metal workers in North Rhine-Westphalia with their colleagues in Holland on a common approach. Otto Jacobi, head of the German think tank - Laboratorium Europa - believes the "contours of a European pay area" are emerging which are "unnoticed and uncoordinated" and he points to the growth of national collective agreements that are revealing a "surprisingly high degree of convergence in pay and working hours". But this does not mean Emu will lead inexorably to the creation of a fully-fledged European-wide industrial relations system.

Not is there much sign the move to Emu is producing a highly centralised initiative on modernising labour markets and reducing unemployment. Jacques Delors' famous 1993 EU white paper on employment, growth and competitiveness sought to develop a strong commitment on jobs expansion but it did not lead to any substantial development of an EU agenda. It is true that the 1997 Amsterdam treaty requires EU member states to develop a common employment policy but this has to respect the subsidiarity principle, placing the main responsibility on member governments for implementing their own employment action plans that will be monitored by Brussels.

But the move to Emu is raising a more fundamental question about the future shape of Europe. Can it reform but maintain its social market model or does it have to Americanise its labour market structures by deregulating them to remain competitive? Many employers may regard Emu as an opportunity to restore their lost power by weakening the European consensual approach to employment developed over the past 50 years. For their part, trade unions can be expected to resist such an approach. The outcome of what promises to be a fundamental public debate remains unclear. But one thing is clear: the arrival of Emu will have a profound impact on employment and labour markets.

SOCIAL PARTNERS • by Robert Taylor

Working solution sought

Although weak at EU level, the two sides wish to gain legitimacy in the power structure

The so-called social partners (the European Trade Union Confederation and the two European employer organisations Unice and CEEP) would like to play an increasingly important role in decision-making after the creation of economic and monetary union, at least in the development of industrial relations and employment strategies.

Their desire to gain an accepted legitimacy in the changing EU power structure reflects a widespread concern on both sides of industry that the arrival of Emu will strengthen the domination of the financial sector through co-ordinated monetary policies and the harmonisation of member state budgets.

Although the social partners for the moment may lack a common agenda on how to pursue their mutual interests, recent events suggest this may still prove possible. The two sides appear to have accepted the value of bargaining at EU level on measures that provide a minimum framework of legal workplace rights. Agreements have been reached recently through this social dialogue approach on unpaid parental leave and atypical work. Many employers may have misgivings about negotiating with trade unions on such issues but they prefer their direct involvement in the process than leaving it to member state governments to decide what should be done through the establishment of legally-enforced directives.

The social partners at EU level remain weak organisations, dependent on the willingness of their affiliate nation-state based members to allow them the freedom to increase their power and influence. They have been under-equipped in staff levels and financial resources to strengthen their compe-



Jacques Delors: warned of the dangers if the social dimension is either ignored or given a low priority

lences as genuinely representative organisations. For the most part, employers continue to wish to exclude most social issues from negotiation at EU level, stressing the need for subsidiarity. By contrast many trade unions have seen the value of strengthening their position at EU level to compensate for their weakening influence with national governments.

But it is widely recognised that moves to greater social integration inside the EU have lagged far behind the pace of convergence in economic and monetary affairs. Otto Jacobi, head of Laboratorium Europa, the German independent think tank, says he is concerned that the resulting imbalance has created a "legitimation gap" over Emu which has encouraged popular scepticism towards the whole European project.

However, employers and trade unions acknowledge it is going to prove difficult to ensure more power is devolved to the social partners in Brussels with the arrival of Emu, however sensible this might appear. Social issues have always encouraged an exaggerated hyperbole at EU level which has belied a more modest reality.

But former EU president Jacques Delors has warned of the dangers to Emu's success if the social dimension is either ignored or given a

low priority. Under his initiative after 1988 a serious attempt was made to construct social partnership as a necessary counter-weight to the creation of the EU single market with its concern to pull down obstacles to economic integration of goods, capital and services.

However, strengthening the power of social partnership in Brussels appears to conflict with a countervailing tendency towards a more decentralised approach to collective bargaining, stimulated in part by technological change in the workplace coupled with competitive pressures in the product market.

To some extent the social partners can be expected to build up the existing sector-based industrial federations as bodies where a co-ordinated approach is possible. The European works councils have also provided the first means for creating direct cross-border linkages at company level that may help to stimulate more substantial European-wide strategies once Emu has arrived.

Despite some aggressive rhetoric there are no signs for the moment that any of this has brought the prospect of European-wide collective bargaining any nearer. Bernt Keller, Professor at Konstanz University, argues that monetary union makes such a development "necessary and unavoidable", com-

pelting nationally-based trade unions into Europeanised strategies. But the barriers of language, tradition, different trade union and employer structures continue to slow the convergence dynamic.

Surprisingly the majority of trade union and employer organisations inside the EU support the move to economic and monetary union, despite the undoubted social and political strain this has provoked in France, Germany and Italy. As George Ross, professor of European affairs at Rutgers University explains, the European Trade Union Confederation has "developed as an organisational player from the top rather than as a mass organisation from the bottom. Perhaps this quite different model will open up into a different kind of transnational unionism in the next millennium. Or perhaps not."

However, if social partnership is to make any impact on the development of Emu it will have to establish a more robust network of connections across different levels of decision-making than seems likely at present. Along with the European Parliament, it remains the best hope of constructing a check or balance in a system that may find it difficult to establish any democratic legitimacy with the peoples of Europe.

PROFILE Citibank

Emphasis on neutrality

No sector of the economy will be as profoundly affected by economic and monetary union as the banking industry. Emu is a monetary event in the first instance, and it is the responsibility of the banks to handle whatever complications arise during the transition to Emu.

But there are also strategic issues involved. On average Europe is considered overbanked, although this is a problem that applies to some markets, such as Germany, more acutely than it does to others.

Several European banks have sought to enhance their position through consolidation and mergers. But what are the US banks doing about Emu? At Citibank the strategy comes down to two broad strands - treat the Emu zone as a genuinely single market including the retail banking business, which for most other banks is a purely home market business activity with virtually no cross-border spill-overs, and play on the strength of the neutrality of an outsider. An American bank has less reason to favour one European region or financial centre over another.

At Citibank's office in the Docklands area of east London, Bill Grant, managing director of Citibank's global relationship banking and director of the Emu project, has spent two years with his team preparing the bank's systems and, in particular, putting an Emu strategy in place for the bank's clients.

Citibank's corporate bank has 250 to 300 large multinational clients, grouped into 14 business sectors. Emu preparations keep about 200 Citibank employees occupied for a large part of their time.

Janet Ellen, who is in charge of marketing communications for the Emu project, says Emu will affect Citibank's customer groups in different ways. Financial sector and retail clients will be most affected, while in the pharmaceutical industry much of the strategic adjustment has



Bill Grant: Citibank has been forced to adopt a new strategy

already taken place. As other banks would also agree, the preparation for Emu is not entirely an internal affair limited to a bank's systems and operations. What is equally important is the effect it will have on the bank's clients and the way those clients interact with their bank.

Business experts predict that Emu will result in a large number of winners and losers across all regions and sectors. While there is no simple rule of thumb, most Emu consultants would agree that, the more global a company's operations are, the more it stands to benefit from Emu.

Citibank stresses strongly its US roots, its worldwide presence in almost 100 countries and, in particular, its emphasis on emerging markets.

With European revenues of \$3.4bn, assets of \$57bn and more than 13,000 employees, Citibank is among the larger institutions operating in the European Union, although smaller than some of the top European banks in their home markets.

Mr Grant argues that Emu forces the bank to adopt a new strategy. "I think we are seeing big shifts in the area of integrated capital markets, and a growth in those markets associated with a shift from bank lending to disintermediation - the raising of finance by way of securities."



Janet Ellen: you can settle anywhere in the EU

"I see growth there. There will be euro-denominated funding and, as a result, a development of new products."

With the trend from traditional forms of bank lending to capital market-based products, Europe will increasingly begin to resemble the US. Securitisation - the conversion of an asset into a tradable security - will become more common.

The emergence of the pan-European capital market at the expense of largely nationally based traditional lending operations is expected to be one of the driving forces behind cross-border banking.

As a neutral operator with no vested national interests, Citibank sees an opportunity in this area. Ms Ellen says: "The neutrality appeals to a lot of multinationals because it is uncertain yet where payment flows will coalesce under Emu. A currency is linked to a location. According to the size of the economy there are different liquidity pools."

"With the euro you can settle anywhere in the EU. Location is no longer that important. The question is where will the liquidity be - in Germany, France or Britain?"

"National banks have vested interests. We can operate in any of these countries, and that gives a lot more choice to our clients."

Citibank divides its services into two broad groups - transactional products, such as cash management, security settlement and trade services, and trade products, for example foreign exchange and derivatives trading.

It has the largest foreign exchange operation of any bank in the world. Superficially, the effect of Emu is to dispense with national currencies and their cross-border exchange rates.

For the bank's currency business this means a shift of emphasis from intra-European trading, which has already happened in the past few years, to new markets, especially emerging markets. This is no bad thing in itself since intra-European trading has become a low-margin, commodity-style business.

Citibank's bankers emphasise that, despite all the work necessary for its preparation, Emu does not constitute a strategic break but a continuation of existing strategy. Ms Ellen says: "Our whole product line was built on the principle of an integrated Europe anyway. One focus was to be a conduit into Europe from Japan or from Latin America."

The same pan-European approach also applies to the bank's European consumer banking operations, which are based in Brussels. Citibank has a retail branch presence in 10 out of 15 EU countries, with a relatively small exposure to Britain but a formidable 300-branch network in Germany.

Jeff Walsh, Emu programme director at Citibank's consumer operations, says: "Consumers are looking for reassurance from their banks. Customers should also get better value from their banks, better prices. 'People will compare mortgage prices between Spanish and German institutions. Margins will come under pressure. We will have to become more efficient.'"

Wolfgang Münchau



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Switzerland

Switzerland was at the forefront of change 150 years ago. A great deal has changed, reports William Hall

Weary of being out in the cold

The Swiss love celebrating birthdays. Seven years ago it was the country's 700th anniversary. Last year, it was the 150th jubilee of Switzerland's railway system. This year, it is the 150th anniversary of the Swiss constitution and all sorts of events are planned to commemorate a time when Switzerland really was at the forefront of change in Europe, rather than bringing up the rear as it does today.

In 1848 Karl Marx and Friedrich Engels had published the Communist Manifesto, and the streets of Europe echoed to the sound of revolution. Armies marched and thrones tottered as people from Hungary and Bohemia to Paris and Frankfurt, demanded basic political freedoms. Only Switzerland, which had gone through its own small civil war the year before, went ahead and successfully introduced a democratic constitution guaranteeing its citizens basic human rights. It paved the way for one of Europe's poorest countries to grow into one of the world's richest and most democratic societies. But that was 150 years ago, and for the past few years Switzerland has been slipping behind.

Economically, it remains one of the world's richest economies. But it has lost its reputation as one of the world's star economic performers. The International Monetary Fund noted in a report this month that Switzerland's growth had "lagged substantially behind" most other advanced economies since the mid-1970s. The IMF also expressed "disappoint-

ment" at the further decline in Switzerland's official development aid relative to its GDP and highlighted the "recent surge" in the country's debt to GDP ratio from 31 per cent 51 per cent.

Switzerland's great humanitarian reputation has also not stood up well to the test of time. The Red Cross was founded in Geneva over 100 years ago, and in 1897 Theodor Herzl, an Austrian Jewish activist, staged the first of several Zionist congresses in Switzerland which launched the drive to create the state of Israel. He chose the city of Basel because it was more open and tolerant than Munich or Vienna. Zurich used to be the haunt of Russian revolutionaries, such as Lenin, and in 1920 the Swiss people even voted to ignore their neutral tradition and join the League of Nations, forerunner of the United Nations. For a brief period Geneva was regarded as one of the world's most important cities.

But more recently Switzerland's reputation as a tolerant and humanitarian society has come under fire. The Swiss have been accused of amnesia. "We were sure we could save the world. We were convinced that we were better than the others and unaffected by what was happening outside. The world should only look at us - this island of prosperity - and apply diligently our recipes in order to be rewarded with eternal peace, prosperity and happiness," says Bénédict Hentsch, managing partner of Darier Hentsch, Geneva's oldest private bank.

It was this sort of attitude which helps explain the hos-

tile international reaction to Switzerland when attention began to be refocused on the shadows in Switzerland's recent history, rather than the more distant high points. Was Switzerland, which was completely surrounded by Germany and its allies, as neutral as it insists in its war-time dealings with Nazi Germany?

Many of the country's banks and big companies appear to have grown rich on the back of the proceeds of this period and Switzerland's reputation as an open and neutral society has been tarnished by its heartless treatment of thousands of Jews whose fate was sealed after they had been turned back at the Swiss border and their passports marked with the odious "J-stamp".

The Swiss government has bowed to international pressure and set up a commission of Swiss and international historians, under Professor Jean-François Bergier, to shed light on its second world war past. It will produce an interim report shortly and, given the Swiss reputation for thoroughness, it should be a respectable contribution to a debate which has often been marked by shrill point-scoring rather than serious historical research.

It is not the only area where Switzerland's commitment to its solitary path is being questioned. It has also been struggling for more than five years to get a bilateral agreement with the European Union which would grant it some of the economic benefits it missed out on when the Swiss people summarily rejected

Switzerland is one of the richest countries in the world - GDP per head 1996 (\$)

Country	GDP per head 1996 (\$)
Switzerland	41,822
Japan	38,329
Germany	28,819
US	28,424
Netherlands	27,382
Austria	27,350
France	26,520
Norway	24,551
Italy	21,034
UK	19,580

But growth has been disappointing - Real GDP growth (annual average change 1990-97)

Country	Real GDP growth (annual average change 1990-97)
Netherlands	2.7%
Germany	2.5%
Austria	2.3%
US	2.2%
Japan	2.0%
Netherlands	1.8%
France	1.6%
Italy	1.5%
Switzerland	0.9%

Source: The Economist, 1997; Swiss Stock Exchange; Credit Suisse; (1997); (1997)

... the stockmarket is booming ...

Stock market 1997	Gain (loss)	Dividend
New York	5,879	31%
Tel Aviv	2,385	-17%
London	2,086	22%
Frankfurt	825	41%
Paris	674	20%
Zurich	676	89%
Amsterdam	488	49%
Milan	340	64%
Bonn	157	37%
Warsaw	20	10%

... jobs are hard to find ...



... and interest rates are low

Government bond yields (%)	Yield (%)
UK	6.12%
US	5.75%
Italy	5.10%
Belgium	5.05%
Austria	5.00%
France	5.02%
Netherlands	6.01%
Germany	4.98%
Switzerland	2.85%
Japan	1.91%

... and the Swiss are worried

What worries the Swiss (%)	1990	1991	1992	1993	1994	1995	1996	1997
Unemployment	21	24	22	20	20	20	20	22
Health	19	24	31	40	41	41	41	41
Pensions	41	44	32	33	28	40	38	39
Europe	28	28	40	32	30	40	34	33
Drugs	70	62	64	73	70	34	40	38
Federal finances	18	18	21	24	34	35	19	22
Environment	78	81	80	67	67	31	30	30



A haven facing mounting problems

Photo: George Harrington

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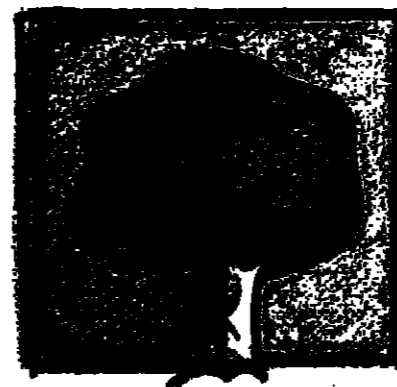


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2 SWITZERLAND

POLITICS • by Clive Church

Trusted old system under pressure

Direct democracy has not spared the Swiss from the malaise found in other states

In 1998 Switzerland celebrates the 150th anniversary of its constitution and the birth of a particular, but not well-known, political system which is sometimes held up as a model that may be adapted to deal with Europe's diverse political problems.

The Swiss political system involves intensive consultation, advanced proportional representation and direct democracy. The signatures of only 50,000 of Switzerland's 6m citizens are needed for a referendum challenging government legislation and 100,000 signatures can force a nationwide vote on constitutional changes.

Not all these elements were present in 1848. In fact, Switzerland did not become a real federation until 1874 and direct democracy did not take root until the end of the century.

Proportional representation came after the first world war and consultation and full representation of political forces in government did not arrive until after the second world war.

All these elements of the Swiss system are important not just for the smooth running of the country's affairs but also for the way that the Swiss define themselves. Acceptance of the dominant roles of grass roots rights and consensus has given Switzerland the unity denied it by its linguistic and religious diversity. Swiss citizens are far more the sovereign people than citizens of other European countries.

Yet as it approaches the millennium the Swiss system is under pressure. Direct democracy has not spared the country from the political malaise found in other European states. And often

it is direct democracy that prevents the country from adapting in the way many feel is needed.

Swiss politics has become more personalised. What counts is performance on Swiss TV current affairs programmes, such as Friday night's Arena. Political debate has become much more shrill.

The fact that the country now faces highly divisive issues, notably Europe, has intensified the change in tone. Such issues are less susceptible to the normal consensual compromise of Swiss politics, so that referenda are becoming more divisive and less a means of holding the country together.

The revelation in the 1980s that the government was keeping secret – and highly doubtful – files on a sixth of its population, and seven years of economic stagnation in the 1990s, has taken a toll on public confidence in Switzerland's political elite.

Populist politicians, such as Christoph Blocher, are now challenging the way the system is run and his Swiss People's party is taking votes away from mainstream parties, particularly the Christian Democrats.

Overcoming Switzerland's increasing political polarisation is proving hard. The government is tiny, has limited powers and the rules for selecting its members can exclude the most able.

In addition, conservative and populist groups can check the government by exploiting the cumbersome consultative processes or collecting the small number of signatures needed to block a new law.

The government was humiliated in 1992 when its plans to join the European Economic Area were rejected, and recent efforts to liberalise labour laws and tighten asylum policy have suffered a similar fate.

Even the attempt to

revamp the constitution, which has become enmeshed with detailed policy provisions since its last overhaul in 1874, has run into trouble and looks likely to deliver less than had been hoped. Certainly, it is unlikely to lead to a rationalisation of the system of direct democracy. The Swiss are cautious; they may admit to problems but find it hard to agree remedies.

So structural change is blocked and the government avoids antagonising the opposition by refraining from giving clear leadership on sensitive issues. Such stasis undermines suggestions that the European Union could do worse than remodel itself on Swiss federal lines.

The Swiss have shown that federalism does not have to be centralising, but it has grown from the bottom up over a long period, which is not the case in the EU. Meanwhile, introducing Swiss-style direct democracy as an answer to the growing alienation in the EU could be far too divisive without grafting on the political culture which holds Switzerland together.

Paradoxically, although the EU is unlikely to adopt Switzerland's political model, it appears to be adopting many of the attributes of the pre-1798 Swiss political system.

It shares the same strange constitutional framework with a myriad of treaties and no single charter. This may be anathema to the Swiss as they celebrate the overthrow of the old system, whether in 1798 or 1848, but the old Confederacy did last for several hundred years and prevented the country falling apart when it was more divided than it is today. There may well be a lesson here for the EU.

* Jean Monnet Professor of European Studies, University of Kent

PROFILE

A need for sensitivity and versatility

Pascal Couchepin, the 55-year-old lawyer who takes over the Swiss economics ministry from the ailing Jean-Pascal Delamuraz on April 1, has a difficult task ahead of him.

His mixed bag of responsibilities includes some of Switzerland's most sensitive dossiers: employment, at a time when record levels of joblessness are the number one concern of the Swiss public; agricultural policy,

now in the midst of painful reforms; and research where a passionate debate is underway ahead of a national vote in June called by opponents of genetic engineering, which could bring an abrupt halt to Switzerland's world-class genetic research effort.

While monetary policy is in the hands of the central bank and fiscal policy rests with the finance ministry, Mr Couchepin's department runs the government's programme of economic

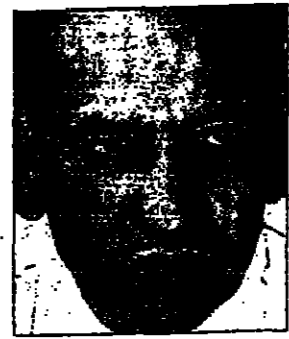
"revitalisation" which aims to boost competitiveness.

This programme is seen as critical in redressing Switzerland's position at the bottom of the OECD growth league and compensating for the disadvantages of being outside the single market.

Like Mr Delamuraz who resigned on health grounds, Mr Couchepin is a pro-European, from the minority French-speaking community and from the the Radical Democrats.

Where Mr Delamuraz is convivial and plain-speaking, Mr Couchepin is austere, aloof and ambitious.

Son of a political family, Mr Couchepin has been a member of parliament since 1979 and mayor of the town of Martigny in the Valais canton since 1984, for most of that time doubling as national party chairman. His politics are centrist, veering to the right on economic matters where he



Couchepin: ambitious

has taken a strong pro-business stance but to the left on a number of social and welfare issues.

Frances Williams

ECONOMY • by Frances Williams

On the road to recovery

The short-term future will be determined by the health of trading partners

After seven years of stagnation the Swiss economy appears at last to be on the road to recovery – but the upturn still looks fragile and capable of being reversed. Even the most optimistic forecasters are predicting no more than modest growth this year and next of 1.5-2.25 per cent, still well behind Switzerland's European neighbours.

Others fear that Switzerland's export-led expansion will falter later this year under the combined impact of a stronger exchange rate in the run-up to the euro in 1999 and the fall-out from the Asian financial crisis.

On the positive side, the Swiss economy grew by 2 per cent in real terms between the fourth quarters of 1996 and 1997, the fastest annual rate since 1990, though average growth in 1997 was just 0.5 per cent.

Exports of goods and services surged last year by more than 8 per cent by volume, helped by a weaker franc and economic recovery in Europe which takes over 60 per cent of Switzerland's merchandise exports and accounts for most of

its foreign tourists.

The annual inflation rate, which touched zero in January, averaged only 0.5 per cent in 1997, the lowest for nearly 40 years, and domestic price and wage pressures are weak.

Meanwhile, the Swiss National Bank, the central bank, which is predicting inflation of 1 per cent or less in 1998, has pledged to continue its accommodative monetary policy to keep economic growth on track. In particular, it is determined to prevent undue appreciation of the Swiss currency whose rise to record levels in late 1996 choked off an incipient economic revival.

The SNB's indicative discount rate has been at an historic low of 1 per cent since September 1996 and the bank has lately injected large amounts of liquidity into the money markets to counter Swiss franc strength. Both short- and long-term market rates are close to post-war lows.

Nevertheless, the franc's value against continental European currencies, especially the Deutschmark, has been creeping up, despite the unanimous view of analysts that the fundamentals point to a depreciation in the longer term.

Uncertainties surrounding creation of the European Union's single currency, the

euro, in 1999, as well as the financial turmoil in east Asia and elsewhere have revived the franc's safe-haven role. Switzerland's booming stock market has also attracted sizeable foreign portfolio investment.

The government's advisory economic affairs commission, which is predicting 1.75 per cent growth this year, says despite the recent appreciation it expects the franc's value to remain below the 1996-98 average. It also sees faster growth in Europe as compensating Swiss exporters for weaker demand from emerging markets which account for only a quarter of Swiss exports.

Others are less sure. Though Swiss exports to Asian developing countries are only 8 per cent of the total, Alois Bischofberger, chief economist at Credit Suisse, believes the impact of the east Asian crisis will show up increasingly in the second half of the year as the repercussions are felt on world and European growth.

Meanwhile, domestic demand shows few signs of revival. Real household incomes have scarcely budged over the 1990s and job insecurity continues to dampen consumer confidence in the wake of the UBS/SBC bank merger and other restructurings.

Unemployment last year averaged a record 5.2 per

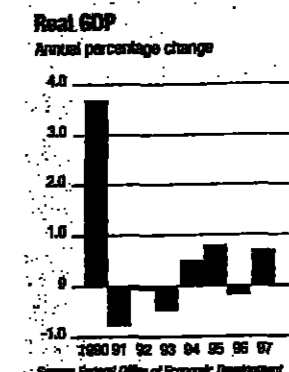
cent, shocking for a country that boasted virtually full employment for most of the post-war period, and expected growth is too sluggish to make much dent in the jobless total over the next couple of years.

Next year, notes Hans Kaufmann of Bank Julius Baer in Zurich, real incomes will be hit by a planned rise of at least 1 percentage point in the VAT rate as well as higher social security charges.

The construction sector, hit by the collapse of the late 1990s property boom, is also likely to remain in the doldrums as the temporary stimulus from a government investment programme enacted last year peters out. Companies are spending more on plant and equipment but with the aim of rationalising production rather than expanding capacity.

To make things worse, big reductions in public spending are programmed to meet the government's target of balancing the budget by 2001. Switzerland, once a paragon of fiscal virtue, will fail the Maastricht criteria for EMU entry this year, with an expected general government deficit of 3.5 per cent compared with the 3 per cent Maastricht limit.

Public debt, though well within the Maastricht ceiling of 60 per cent of GDP, is projected to reach Sfr202bn by the end of this year, double the 1990 level. Though Switzerland is ineligible for EMU because it is not an EU member, keeping its economy in line with its EU neighbours is an important Swiss policy objective.



ected to reach Sfr202bn by the end of this year, double the 1990 level. Though Switzerland is ineligible for EMU because it is not an EU member, keeping its economy in line with its EU neighbours is an important Swiss policy objective.

Depressed by the dismal scenario for jobs, the Swiss trade union movement is pressing for measures to speed growth through a Swiss franc depreciation and has launched a referendum campaign to cut the average working week to 36 hours in line with the French.

Employers and the business establishment by contrast emphasise the need for more deregulation and greater labour market flexibility. But the uncomfortable fact is that, whatever Switzerland does on its own account, the short-term future will be largely determined for it by the health of its trading partners and the unpredictable currency desires of foreign investors.

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NEUTRALITY • by Tony Barber

A change as big as moving mountains

A policy pursued by Switzerland since 1945 may no longer be appropriate

A Swiss diplomat searched recently for a metaphor to explain how important Switzerland's neutrality in international affairs has been to defining the national self-image. "Neutrality has been our Matterhorn," he said.

If so, it is a mountain that is being shaken as never before by the tectonic changes in Switzerland's geopolitical environment: the end of the Cold War, the Soviet Union's collapse, and the European Union's drive to closer political and economic integration.

In the view of many Swiss politicians and foreign policy experts, the policy of strict neutrality that Switzerland pursued to such considerable effect after 1945 is no longer appropriate. The country is self-evidently part of the western world of free-market democracies and has little to lose and more to gain from eventual membership of the EU and the United Nations.

Switzerland's president, Flavio Cotti, said in an FT interview: "Foreign policy in today's world is made within multilateral networks. The time for beautiful, bilateral visits for laughing diplomats is past. It's all multilateral now. A country outside is isolated."

The need for change was outlined with particular force in a report published in February by a government committee of experts headed by Edouard Brunner, a retired Swiss diplomat. The report, which will form the basis for a national debate about Switzerland's future foreign policy, observed that the decision to keep out of the Second World War had led to a deep conviction among the Swiss people that "Switzerland owes its salvation to its seclusion and its

refusal to become involved in the affairs of others."

Such attitudes continued to prevail during the Cold War, when Switzerland went out of its way to avoid taking sides in the East-West ideological and military confrontation. However, Switzerland was more in those days than just a convenient venue for US-Soviet discussions about nuclear arms control and regional conflicts such as the 1979-89 war in Afghanistan.

As the Soviet Union itself privately recognised, Switzerland was for all practical purposes a country integrated into the western economy and sharing the same political values as the western democracies.

"In case of war, Switzerland would have benefited from the protection of its neighbours and potential allies, especially from the western 'nuclear umbrella'," the Brunner report says.

"Today we must recognise that the situation has changed once more. Faced with more diffuse and manifold threats, we must accept the hypothesis that threats (such as blackmail by terrorists) could be targeted specifically against our country - without necessarily threatening our neighbours at the same time. We would then be isolated, due to a lack of institutional links with our neighbours, who would in no way be obliged to help us."

Switzerland has already taken some small but significant steps to modernising and reinterpreting its doctrine of neutrality. It has joined Nato's Partnership for Peace programme, although unlike other PFP countries such as Romania and Slovenia it has no intention of applying for full membership of the US-led military alliance.

The Swiss broke fresh ground in 1995 when they allowed Nato forces travelling to Bosnia to have air and ground transit rights through Switzerland. Four

years earlier, the Swiss had been reluctant to permit overflight rights for western aircraft heading for the Gulf to help eject Saddam Hussein's forces from Kuwait.

Changes in Switzerland's military posture will also affect the way that neutrality works in the future. The age-old tradition of a militia force made up of "citizen-soldiers" who keep their rifles at home is likely to give way to a small professional army which could take part in international peacekeeping missions. The militia would remain, but much reduced from their present strength of almost 400,000.

Swiss membership of the EU would not, of itself, force the abandonment of neutrality, as the cases of Austria, Finland, Ireland and Sweden have shown. However, the EU continues to pursue the goal of a common foreign and security policy, and some EU states are determined to see the Western European Union evolve into the EU's defence arm.

Should Switzerland join the EU, as is the clear wish of the political and foreign policy establishment, then Swiss neutrality would surely come into eventual question. "In the long term, co-operation may lead us to abandon neutrality in its current form," the Brunner report says.

Switzerland originally adopted neutrality in 1815 under the influence of the major European powers. Later, between the Franco-Prussian war of 1870-71 and the First World War, neutrality was the best way of staying out of trouble and maintaining the internal cohesion of the country, divided into German- and French-speakers.

Now, however, the world is different. "Neutrality must under no circumstances prevent engagements necessary for our security and dignity as a responsible state," the Brunner report says.

INTERVIEW

President Flavio Cotti tells William Hall about Switzerland's 150th anniversary celebrations

Growing desire to join the club

Switzerland celebrated its 700th birthday in 1991 and now it is celebrating the 150th anniversary of its constitution. What is their significance?

In 1991 we celebrated Switzerland generally with its myths and its legendary traditions. This time the festivities will be more sober because they have to do with the constitution and our political system which was introduced in 1848. At the time Switzerland was the most revolutionary country in Europe and its democratic system was envied by others. However, our political structures have not adjusted as quickly as society has changed and this is causing us problems.

Why are the Swiss so unenthusiastic about joining Europe?

Traditional Swiss reluctance towards the EU has a historic background: our neutrality and our not getting involved in international political alliances is deeply-rooted. This has enabled us in difficult times to remain independent and autonomous. It also contributed to keeping us out of war. But Europe has evolved and even in Switzerland more and more people feel that the major developments are fostered by the EU and that we would be better off being there and taking part in the decision-making.

If Switzerland finalises its bilateral negotiations with the EU, what will still be missing?

The bilateral agreements will settle economic issues between Switzerland and the EU. But full involvement in

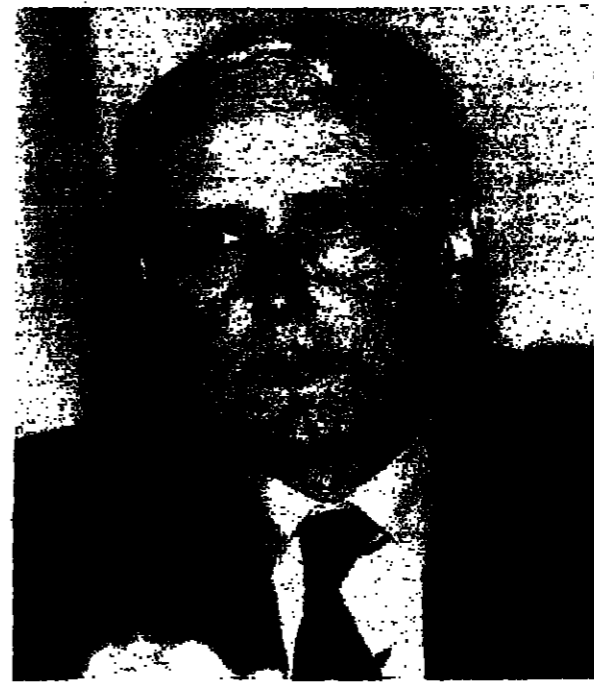
the decision-making process will still be missing. However, we are part of Europe. We speak the languages of three major EU countries and share much of their culture. The EU is deciding on very important problems which have enormous influence on our welfare. But we cannot participate in the decision-making.

How is Switzerland's policy of neutrality changing?

In 1995 we granted international peace forces joining IFOR in ex-Yugoslavia the right to fly over and travel through our territory. This would have been unthinkable until recently. Switzerland also took part on its own in enforcing the UN economic sanctions since the 1991 Gulf war. Our recent chairmanship of the OSCE also symbolises our willingness to have a more open foreign policy. But we continue to share the fundamental legal elements of neutrality. One of the rules is that we are not to commit ourselves to any possible form of involvement in war, even in peacetime. This means that we have no intention to join any alliances like Nato.

Switzerland is a rich country which enjoys many of the benefits of Europe's prosperity but shoulders few of the responsibilities.

Switzerland does not just think of its advantages. It is ready to assume its share of responsibilities. We are not part of the UN, but our financial contributions are higher than those of many countries. We also substantially support a good number of international organisations like the Red Cross.



Cotti: "ready to assume our responsibilities"

George Hertzberg

What have you learnt from the international response to Switzerland's role in the so-called Nazi gold affair?

We have to recalibrate our history. There is no question about the fact that mistakes were made by Switzerland during that time. It is our intention to clarify all questions still pending in this regard. Research work on these matters is presently in full gear and is guided by three basic rules: transparency, justice and solidarity.

However, on balance, our behaviour in the second world war was positive. We took in more than 300,000 refugees, for example. And since we were the only dem-

ocratic country in Nazi- and fascist-occupied continental Europe, our media was highly appreciated by resistance fighters in Italy.

What are Switzerland's strengths and weaknesses?

A great strength is its capacity to create a flourishing economy, and to organise four different languages and cultures. Minority rights are granted utmost importance and highest respect. I am saying this in my capacity as representative of the 5 per cent Italian-speaking Swiss minority. Furthermore we managed to develop a stable political system enabling the cantons to enjoy a high degree of

autonomy. But we also have weaknesses. For a long time we were saved from every war and proudly believed we were a "Sonderfall", or special case. But the fact is that we share similar problems with other countries which we can only solve together as part of the international community.

Do you think that the Swiss president should serve longer than a year, and be given more powers to deal with Switzerland's problems?

The president is *primus inter pares* and does not have any more power than the other members of the seven-strong Federal Council. Decisions have to be taken by all seven together. The president should be granted greater power, which is more important than extending the duration of his term. But the difficulty resides in the fact that the collegial system must be preserved.

Your predecessor, Arnold Koller, launched the idea of a SFR7bn "Solidarity fund" as a humanitarian gesture. When will it start operating?

We are in a period of intensive consultation with all interested organisations. That should be finished by the end of 1998. Then will come the debates in committees and in parliament with possibly a popular vote at the end. The rather complicated procedure prevents us from setting a calendar. There has been a lot of opposition but I am confident that if we submit an accurate and sound proposal, the Swiss people will accept it.

INTERVIEW Rolf Bloch

Mixing morality and chocolate

As the chairman of a medium-sized Swiss chocolate company, Rolf Bloch seems an unlikely target for hate mail. Generous, thoughtful and mild of manner, he has nothing in his character to suggest why he should be selected for such abuse, except perhaps those very qualities of tolerance and humanity which he most stoutly defends.

But as the president of the Swiss Federation of Jewish Communities since 1992, and as the head of a Swiss humanitarian fund for needy victims of the Holocaust since last year, Mr Bloch, 67, is a public figure. He is the representative of Switzerland's tiny Jewish community, numbering 18,000 people.

More importantly, he is a living symbol of the darkest spot on his country's conscience: its wartime financial and commercial dealings with Nazi Germany, and its treatment of Jewish refugees seeking shelter from genocidal persecution.

"I got hate mail for the first time in 1996, from anti-Semites. Most aren't signed. They feel that the general climate is such that they can come out," he says. "There is a deterioration in relations between the Swiss and their fellow Swiss-Jewish citizens. I get letters saying, 'I shall no longer eat your chocolate'. But my view is that they are punishing themselves if they deny themselves the chance to eat my chocolate."

Mr Bloch is at pains to stress his belief that, compared to the Jewish experience in other European countries, the position of Jews in Swiss society has been remarkably secure in the modern era. "Swiss anti-Semitism has not been violent in the last 150 years, except for one murder in 1942. His name was Bloch, so I remember him well."

Yet he contends that, until the recent uproar over Switzerland's wartime



Bloch: an unlikely target

turnover is about Sfr40m. But Mr Bloch is just as busy these days with the Holocaust fund, which arranges for money to go to needy victims of the Nazi terror, both Jews and non-Jews. "Eastern European countries are our priority. These are old people living on very small pensions."

The fund has Sfr273m available for distribution and has already made grants in Hungary and Latvia. About 20,000 Hungarian Jews are receiving Sfr12m in total. To be identified as needy, a recipient must live below the poverty line, a determination that is made by other humanitarian organisations with which Mr Bloch's fund has established contact.

Mr Bloch thinks that the national self-examination prompted by the re-opening of wartime issues will eventually benefit Switzerland. "If the Swiss start to say, 'We weren't worse than others', then they imply that they weren't better than others, either. And that changes the picture, because many Swiss had thought that they had been better."

"But if we are not better or worse, shouldn't we finally join the world, where others are not better or worse? That would take us out of our splendid isolation. And that would mean that we would have learnt something. It would take us out of our moral crisis. Twenty years from now, we will be so glad that we have had this discussion, this crisis."

Illustrating his point, Mr Bloch recalled a recent meeting at which a Swiss banker, born long after the second world war, complained that it seemed unfair for the world to judge him and his generation for misdeeds committed during the war or in the first post-war decades. Mr Bloch told him: "Now you know what it's like to be a Jew."

Mr Bloch's company, Camille Bloch SA, was founded in 1929 and employs 180 people. Its

Tony Barber

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BANKING • by William Hall

'Big two' likely to move in opposite directions

The centre of gravity is swinging towards New York and London

As long as anyone can remember, people have always talked about the "big three" Swiss banks - UBS, Credit Suisse and Swiss Bank Corporation. But within the next few months the "big three" will shrink down to the "big two" following Swiss Bank Corporation's merger into an enlarged UBS.

The new bank will be one of the world's top five in terms of market capitalisation and the merger is the most dramatic of a series of moves which are transforming not only the face of Swiss banking, but also the jobs-for-life culture. Swiss bankers, once regarded as among the world's most conservative folk, have started taking the sorts of strategic bets on the future of their institutions which would have been unthinkable 10 years ago.

Credit Suisse started the ball rolling in July 1996 by announcing that it was going to cut the size of its loss-making Swiss retail network by around a third and shed 15 per cent of its domestic workforce. It also did something very "un-Swiss". It dumped Josef Ackermann, its respected chief executive-in-waiting, and hired Lukas Mühlemann, an ex-McKinsey management consultant, to lead Switzerland's oldest big bank into the next millennium.

Over the next few months, SBC and UBS announced

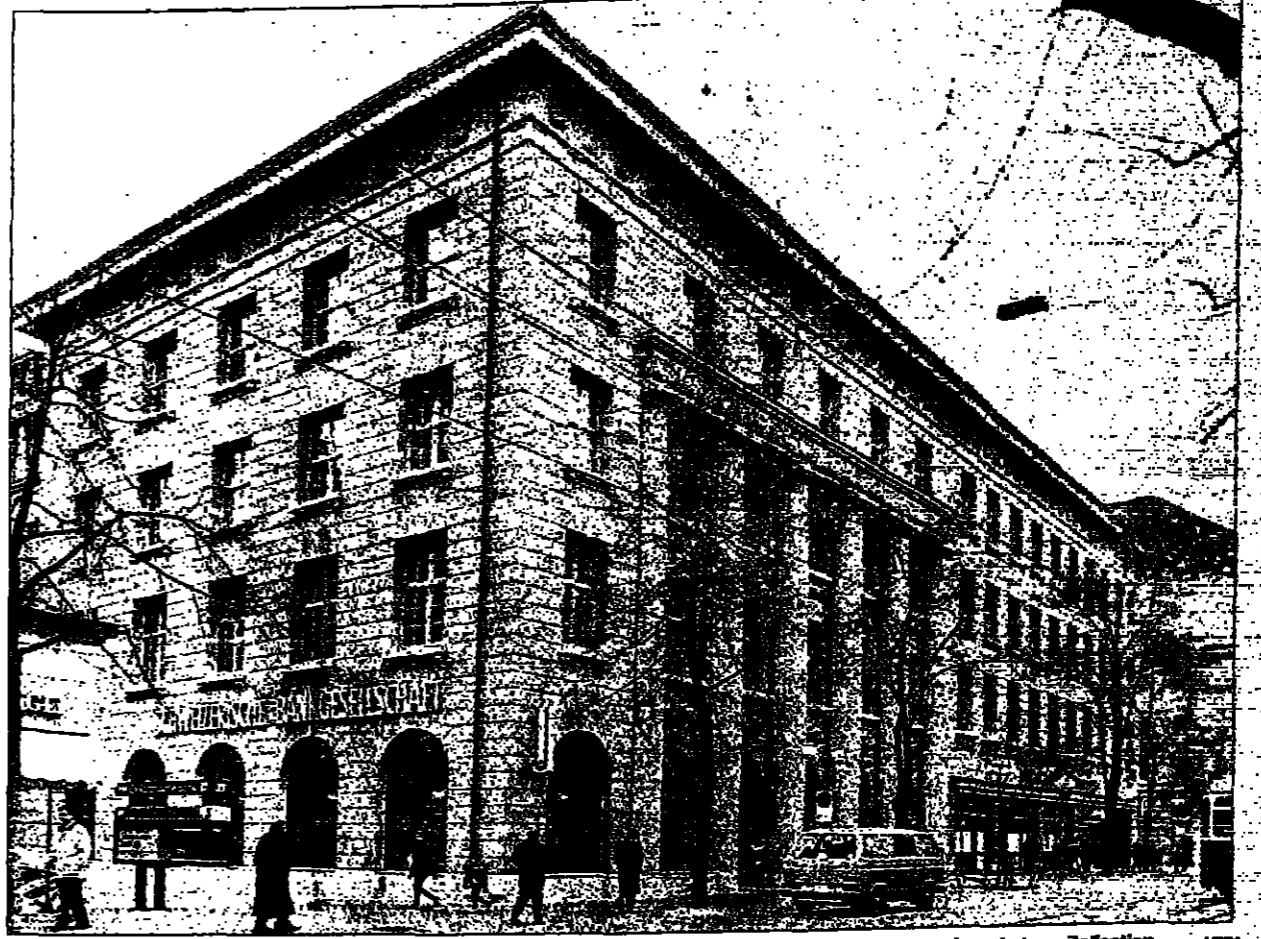
similar restructurings of their domestic Swiss networks. Then, last August, Credit Suisse moved again with an agreed SFR14.3bn bid for Winterthur, Switzerland's second biggest insurer. The deal, creating one of Europe's top five financial services companies, was designed to capitalise on the blurring of the lines between banking and insurance.

Mergers and acquisitions in neighbouring countries are creating financial services groups of impressive size, and Rainer Gut, Credit

Suisse's long-serving chairman, believes that "only a few, truly global, first-class companies will be able to hold their own in this competitive environment". The Winterthur deal was designed to ensure that Credit Suisse is one of those companies and fulfill Mr Gut's ambition for Credit Suisse to regain its position as Switzerland's number one bank by overhauling UBS, its arch rival.

However, less than four months after the Winterthur deal, UBS and SBC announced their merger and dislodged Credit Suisse from the top spot. George Blum, SBC's chairman, said that there were still too many banks in Switzerland for the country's size and the merger would solve the problem of inadequate domestic profitability. Internationally, neither of the two banks had the individual strengths needed to succeed in the long haul, said Mr Blum.

Nevertheless, the speed with which UBS, the bigger of the two banks, abandoned its independence, and allowed SBC executives to fill most of the top jobs



UBS in Zurich - following the merger with SBC the new bank will be among the world's top five in terms of market capitalisation

remains one of the unsolved puzzles in Swiss banking. True, UBS seemed to have lost some momentum and its chairman had made a number of public gaffes. But both Credit Suisse and SBC had been through equally shaky

patches over the past decade and recovered.

There is no reason to believe that UBS, which is much better capitalised than the other two banks, could not have regained its old momentum. The suspicion remains that UBS decided to join forces with SBC because it feared that Credit Suisse, which had made an abortive merger offer in early 1996, might make another overture. Martin Ebner, Switzerland's best-known corporate predator and UBS's biggest shareholder, had been highly critical of UBS's management and there had been rumours that he might join forces with Credit Suisse, where he is also the biggest shareholder, to bid for UBS.

Whatever the truth of these rumours, Switzerland now has two big banks pursuing very different strategies, unlike 10 years ago. Credit Suisse is intent on becoming a leading "bancassurance", while UBS is going in the opposite way. Meanwhile, private banks, such as Julius Baer and Bank Vontobel in Zurich, and the Geneva private banking partnerships, are increasing their work force. They specialise in private banking and asset management for wealthy individuals where reputation and discretion are as important as economies of scale in winning new business.

The shake-up at the top of Swiss banking is rippling through the rest of Switzerland's banks. The number

has fallen from more than 600 at the start of the decade to about 400. Over the past five years over 10,000 jobs have been lost in domestic Swiss banking and the recent cuts are likely to mean that numbers employed in domestic Swiss banking will soon drop below 100,000. By contrast, the foreign staff of Swiss banks has risen by nearly 50 per cent over the past decade to just under 12,000.

Not everyone is enamoured by the big banks' love affair with size. Many small companies are complaining that the increased emphasis on improving short-term profitability means that the banks are no longer as supportive of Swiss industry as they once were. Some of Switzerland's 24 cantonal banks, the second biggest banking group, are starting to exploit this vacuum.

Meanwhile, private banks, such as Julius Baer and Bank Vontobel in Zurich, and the Geneva private banking partnerships, are increasing their work force. They specialise in private banking and asset management for wealthy individuals where reputation and discretion are as important as economies of scale in winning new business.

The consolidation moves and the arrival of a more profit-conscious breed of

Swiss banker, have done wonders for the share prices of Swiss banks over the past year. However, one outstanding issue still casts a cloud over the Swiss banking sector - the question of the unclaimed accounts of Holocaust survivors.

UBS recently disclosed that although it had set aside SFR33m for its contribution to a "humanitarian fund for victims of the Holocaust" it had spent twice as much again last year on re-checking its files for dormant accounts and the legal expenses to fight a multi-billion dollar US class action from Holocaust survivors. The Swiss banks as a group have probably spent at least three times as much as UBS trying to clear their name.

Nevertheless, there remain persistent rumours that the Swiss banks may still have to agree to some sort of "global settlement" if they are to put the dispute behind them. Edgar Bronnmann, president of the World Jewish Congress, has suggested a \$3bn figure. The Swiss banks have dismissed this figure as ridiculous, but given the amazing events of the past 12 months it would not be all that surprising if the big two Swiss banks did have to dig deeper in their pocket to resolve a problem which has been haunting them for years.

PROFILE Bénédikt Hentsch

Time to take a stand on assets

Ask most Swiss bankers why Switzerland is number one in private banking, and they will explain at length about Switzerland's neutral reputation, the quality of its banking services, and its banks' superior investment performance. But not Bénédikt Hentsch, 49, managing partner of Darier, Hentsch, Geneva's oldest private bank.

"Let's call a spade a spade," Mr Hentsch told a recent investment seminar. Swiss banks would not be number one in private banking were it not for the country's bank secrecy laws. He stresses that a banker's obligation to maintain banking secrecy has always had to yield to other legal requirements. But the recent evolution of criminal law has progressively reduced the scope of Swiss bank secrecy. New laws on insider trading, money laundering, on the failure to exercise vigilance in connection with financial dealings, on manipulation of securities prices, are all

chipping away at Switzerland's "enormous competitive advantage" in the area of client confidentiality.

"The time has come to take a stance and defend in a lucid and resolute manner an asset of which the country may be proud and which it cannot do without." He is equally worried about threats to introduce a Swiss capital gains tax or a tax on deposits. "In this country you cannot build a ski-lift without submitting a voluminous environmental impact plan." As a mountain biker, he is all for protecting Switzerland's squirrels and marmots but he would like to see the same attention given to preparing weighty "financial environment" impact studies before a new tax is introduced. There have been too many examples when taxes were introduced for short term fiscal reasons and markets disappeared instantly.

"Let's face it, 'Finanzplatz Schweiz' is no longer the



Bénédikt Hentsch: critical

offshore financial centre it was in the past," says Mr Hentsch, 49, who sits on the boards of Swiss Re and SAIRGroup. The combination of booming bank profits, record share prices and big cuts in the domestic Swiss workforces of the big three banks makes him nervous. It is not an ideal environment in

which to convince the Swiss government that more, rather than less, needs to be done to strengthen 'Finanzplatz Schweiz'.

When it comes to Switzerland generally, he is equally critical. "We Swiss were sure we could save the world. We were convinced that we were better than the others and unaffected by what was happening outside. The world should only look at us - this island of prosperity - and apply diligently our recipes in order to be rewarded with eternal peace, prosperity and happiness." Mr Hentsch told a recent seminar.

"This huge contradiction between reality and our theories," was not a problem as Switzerland shared out the spoils equally. But in 1997 Switzerland finally fell off its privileged perch. Mr Hentsch regards Credit Suisse's acquisition of Winterthur and the UBS/Swiss Bank Corporation merger as "seismic events" in Switzerland which demonstrated that the

Swiss could no longer ignore what was going on elsewhere.

Such challenges call for a fresh approach. When French-speaking Switzerland had to field a candidate to replace Jean-Pascal Delamuraz, Switzerland's outgoing economics minister, Mr Hentsch tried to persuade Georges Blum, the retiring chairman of Swiss Bank Corporation, to apply. If US investment banks like Goldman Sachs and Merrill Lynch can produce US treasury secretaries, asks Mr Hentsch, why cannot Switzerland do the same?

Mr Blum declined, but Mr Hentsch is convinced that Switzerland must harness the energy of the growing cadre of Switzerland's international executives to help solve the country's growing problems. Who knows, one day Mr Hentsch himself might throw his hat in the ring. If he did, Swiss politics would be more fun.

W.H

PORTRAIT Zug

Need for vigilance in tax paradise

Swiss from other cantons tend to sigh at the mention of the name Zug. "Ah, the tax paradise," they say referring to Switzerland's smallest full canton. With an area of only 240 square kms and a population of around 90,000, Zug is known as a canton which bends over backwards to provide an attractive location for both Swiss and multinational companies.

The number of companies domiciled in canton Zug has almost doubled over the past 20 years to approximately 16,000 (the majority of them foreign-owned). It also punches well above its weight in various specialised fields. For example Zug ranks third in the world as a commodity trading centre and there are no signs of its impetus slowing down. Indeed, the evidence of the 1990s suggests the opposite even within Switzerland itself. During this decade, Shell, BP and Unilever have moved their Swiss bases from Canton Zurich to neighbouring Zug.

This is not an aspect of the canton's progress which the cantonal head of government Robert Bisig wants to make political capital out of. The opposite is the case for Mr Bisig who stresses that it is in the interests of Zug that its larger neighbour "remains the economic engine of Switzerland", with Zug enjoying a lot of the benefits. He also says that there are many other reasons why companies choose to be domiciled in Zug apart from low taxes.

The fact remains that tax lies at the root of the original emergence of Zug as a domicile for multinational companies. Back in the 1960s, Zug was not, Mr Bisig says, a particularly wealthy canton compared with its neighbours Zurich, Aargau and Lucerne. So the cantonal government set out to

make itself particularly attractive with a new tax regime offering various significant novel factors such as "privileged" taxation of companies controlled from abroad and with business carried on mainly outside Switzerland (known as "mixed" companies) and similar breaks for holding companies.

The success of the policy is self-evident with international companies ranging from Glencore International to Rothmans of Pall Mall. It has also helped Zug avoid the worst of the recession in Switzerland. Unemployment is only 3.6 per cent - exactly the same as in 1995 and the lowest in Switzerland. But while Zug still also enjoys the lowest personal and corporate tax rates in Switzerland, the authorities lay particular emphasis that tax rates are not the only reason for the canton's success. Other cantons have copied various of Zug's tax ideas but Zug remains ahead of the field because it has an in-depth knowledge of multinationals and has developed a user-friendly atmosphere for foreigners. For example, Peter Kottmann who heads the economic promotion department of Zug, points out that the tax authorities treat the tax payer as a "client" rather than a debtor and reasonable solutions to problems are the order of the day rather than rigid enforcement.

Zug is also a place where people work and the authorities are keen that the canton is not seen as a central European tax haven for letter-box companies. About 6,500 companies based in Zug have to a thriving high-tech industry; social security contributions are low, bureaucratic decision making is swift and there is an active policy of encouraging com-

panies who wish to create jobs. In this area Zug also has a liberal attitude towards employing foreigners in specialised capacities. The federal authorities place restrictions on this, but Zug is alone among the Swiss cantons in using up its full quota for foreign employees. Around 20 per cent of the 56,000 workforce is foreign.

This creates a cosmopolitan atmosphere in Zug which has a particular charm for multinationals. Within 40 minutes striking distance from Zurich Airport, Zug is not a provincial backwater, but has a population which is 18 per cent foreign and includes people from more than 80 nations. A wide choice of schools is on offer and the canton has also used the availability of international expertise to enhance its appeal. For example in the training field, the formation of an Institute for Financial Services was an important development, as is, more recently, a "Techniker und Informatikschule" for training in the use of computer software.

So are there any problems in this "tax paradise"? People live and work there amid mountains and lakes (including, according to Mr Bisig, the richest man in Switzerland) and seem to have the best of all worlds. However, the small size of the canton places physical restrictions on expansion. There is a traffic problem in the town of Zug and the cost of living is high compared to the rest of Switzerland. Zug also has another potential problem. Its position as a magnet for foreign companies has also attracted interest from Eastern Europe (particularly Russia) and this means that corporate vetting and control have to be increasingly vigorous.

Christopher Hill

The Bank that's 142 years young

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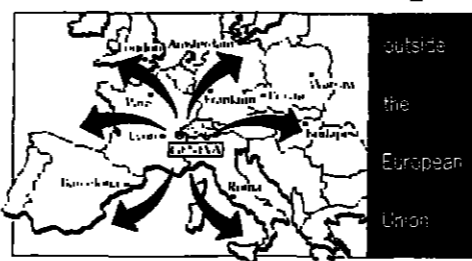
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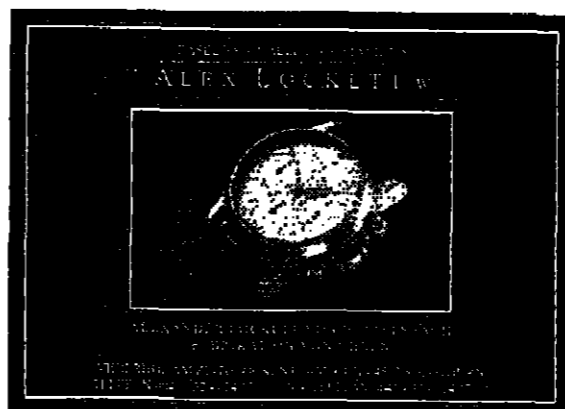
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Fendt, Madame Expo



Rist, defusing myths

EXPO 2001 • by Jean Schlegel

Cultivating a new style

Organisers are hoping to defuse myths about the conservative and staid Swiss

As the countdown begins on a huge placard at one of Lisbon's main traffic intersections showing the time remaining until Portugal's Expo '98 gets under way, the organising committee of Switzerland's Expo 2001 is already working at full throttle, and, most unusually for Switzerland, there is a woman at the controls.

Heading the undertaking, with a Sfr1.5bn budget, is Jacqueline Fendt, 46, a multilingual former Swiss swimming champion with a business track record. Certainly, under her management this Expo is going to be different from the five national exhibitions Switzerland has hosted during the past century. The emphasis will shift from typical Swiss parochialism towards a globally-oriented philosophy of "emotionalism".

"We Swiss always want to be perfect and that inhibits us in many ways," says Ms Fendt, and if the recent press conference given by her artistic director, Pipilotti Rist, is anything to go by, it may well defuse some of the myths about the staid and conservative Swiss.

Appearing in a formal man's suit, the bow-tied Ms Rist began by quoting poetry, singing several bars from an old battle song, and telling provocative jokes. The Expo would be "a huge collective sculpture; a pulsating organism"; a "total sensual experience".

Ms Rist, 35, a former student at Vienna's University of Applied Art and Basle's Design School, will be in charge of the 250 events and 200,000 presentations which

will take place under the Expo umbrella during 23 weeks. More than 15m visitors are expected.

Money will not change hands. Instead all transactions including entry will be by bankers' cashcard. A decision to exclude all other ideas has been criticised as favouring the banks over industry. In particular, Swatch, Switzerland's most successful watch brand, had wanted to offer its souvenir "Access" watch, containing a chip with a remote control door opener, as will be used in Lisbon.

However, according to Expo finance director Rudolf Baumgarten, the watch cannot be used simultaneously for payments.

National interests will not be done away with entirely as Ms Fendt's skill in the choice of venue shows: the four sites in Neuchâtel, Biel, Yverdon and Murten are in an area where the two main languages of Swiss-German and French meet.

Outsourcing is almost being implemented as with the order for the 20 French-built catamarans, each seating 400 passengers, to ply the three lakes and Switzerland's longest navigable waterway of 257 kilometres, around which the exhibition will take place.

Jacqueline Fendt, or Madame Expo as she has become known, envisions Expo as a "creative, future-oriented workshop" allowing every Swiss citizen the opportunity of submitting a project proposal for evaluation by the relatively small committee, of which a large proportion are women.

Ms Fendt is obviously enjoying her tour of the country in the role of Expo ambassador, infecting even the most sceptical with her charm and enthusiasm. As well she might, with Sfr195m of Swiss taxpayers' money at stake.

INDUSTRY • by William Hall

High quality ingredients with extras

More foreign executives are being hired as industries expand further afield

When it comes to a review of what makes Switzerland special, it is easy to overlook the contribution of its industrial sector. Switzerland has plenty of banks, some of the finest chocolate, and is known for its watchmaking skills. But it is not renowned as being the world's leading producer of computer mice or infertility drugs.

Swiss industry, like much else in Switzerland, suffers from a number of myths. The first is that the strong Swiss franc has rendered large parts of Switzerland's industrial base hopelessly uncompetitive. The second is

that Switzerland is over-represented in the traditional "smoke-stack" industries, such as chemicals, but has missed out on high-tech companies.

True, the Swiss do not have a reputation for producing entrepreneurs. But the above-average sums spent on training and research and development mean that Switzerland's reputation as a country with high labour costs is offset by the quality of its labour force.

A glance down the list of Europe's leading companies shows up the importance of corporate Switzerland. The country is Europe's 23rd biggest in terms of population, yet in terms of headquarters of Europe's top 500 companies it ranks fourth behind the UK, Germany and France. Three of Europe's top 10 companies are Swiss -

Novartis, Roche and Nestlé. By contrast, the list contains only one German company, the insurance group Allianz.

While international attention is often focussed on the important role of Switzerland's banks and insurance companies, few realise that when it comes to world class companies, industrial Switzerland has far more global businesses than the financial sector. Novartis is the world's third biggest pharmaceutical company and Roche is the eighth biggest. ABB, the Swiss/Swedish engineering giant, is one of a handful of multinational electrical engineering giants. Holderbank is the world's biggest cement company. Schindler is second only to Otis of the US in the elevator world, and the recently floated Ciba Specialty Chemicals and Clariant are leaders in their particular sectors of the global chemical industry.

Switzerland is number one in textile machinery and the third biggest exporter of machine tools. Adecco is challenging Manpower of the US for the title of the world's biggest temporary employment agency and Société Générale de Surveillance is the world's biggest testing and inspection company, employing close to 40,000 people of which all but a few hundred work outside Switzerland.

Swiss industry is in surprisingly fine fettle given that the local economy has been in semi-recession for seven years and the Swiss



Cheese is a traditional industry - but Swiss industry offers a number of other qualities

Photo: Reuters

franc remains strong against the Deutsch mark, the currency of its biggest trading partner. This is partly because the most successful Swiss companies have long outgrown their home market. Only about two per cent of Nestlé's sales are in Switzerland; exports account for 98 per cent of Swiss watch sales and 70 per cent of Swiss machinery sales.

The strength of the Swiss franc has taken its toll on profit margins, forcing Swiss companies to restructure in order to survive. Publicity surrounding the shakeout in the Swiss banking sector has overshadowed equally dramatic restructurings in large parts of Swiss industry.

Admittedly, there remain some well-known old engineering conglomerates, such

as Sulzer and Oerlikon-Bührle, which still need restructuring. Many of the more traditional engineering companies, however, such as Georg Fischer and Saurer, are already benefiting from the painful medicine they took in the early 1990s judging by the dramatic earnings increases for 1997.

Swiss companies, because their domestic market is small, have had to expand overseas in order to survive. They have a much greater tradition of international business than many of Germany's medium-sized companies and have benefited from longer investment time horizons than their Anglo-Saxon competitors. The importance of low Swiss interest rates in providing cheap finance should not be underesti-

mated, nor should the benefits of the excellent Swiss education and apprentice systems.

The Swiss are not averse to hiring the best executives for the job, even though they may not be Swiss. The chief executives of Nestlé and Roche, for example, are Austrians. Alusuisse is headed by a Canadian/Italian, Adecco by an Englishman and ABB by a Swede.

As a senior Swiss executive recently put it, Switzerland is a small but rich country and there are not enough good Swiss executives to go round. The fact that many of these companies have swallowed their pride and hired foreign managers helps explain the above-average success rate of corporate Switzerland.

EUROPE • by Frances Williams

Splendid isolation can be expensive

The centre of gravity is swinging towards New York and London

The Swiss are discovering that their self-imposed isolation in Europe is not so splendid after all.

Since 1992, when Swiss voters narrowly rejected a pact joining Switzerland with the European Union's single market, the Swiss economy has been the worst performer in western Europe. Though some if not most of this is of Switzerland's own making, remaining outside the 18-nation European Economic Area has certainly not helped.

According to the Association of Swiss Machinery Manufacturers, the EEA refusal has cost Switzerland's biggest export industry Sfr1bn annually in lost exports because Swiss companies continue to struggle

with customs formalities and differing product standards abolished for EEA rivals.

While 70,000 machine-making jobs have been lost in Switzerland in the past five years, two to three times as many have been created abroad by Swiss companies. Total Swiss direct investment in Europe has trebled since the EEA vote, while inflows from abroad have shrunk dramatically.

Swissair, the national carrier, estimates that exclusion from Europe's liberalised air transport market is costing it some Sfr200m a year. Meanwhile, the big Swiss banks and pharmaceuticals companies complain of the difficulties in hiring skilled foreign workers and of transferring Swiss nationals to EU subsidiaries.

For ordinary Swiss, especially the young, the disadvantages of their isolation in the heart of Europe are becoming increasingly irksome. These range from

restrictions on their ability to work and study freely in Europe to finding themselves in lengthy queues at European airports alongside non-Europeans while EEA tourists whizz through the formalities.

Now that all Switzerland's EU neighbours are members of the Schengen agreement scrapping controls on movement within the group, checks at the border are getting tougher, affecting tourists and Swiss nationals.

To overcome these disadvantages, Switzerland has a policy of aligning its legislation and standards to EU standards where possible, even though it has no say in fixing those standards. Three years ago the Swiss government also opened bilateral talks with Brussels in the hope of gaining better access to EU markets.

However, these talks, which cover road and air transport, the free movement of people, public pro-

urement, research and development, agriculture and technical barriers to trade, are still bogged down by Switzerland's bid to restrict the number of 40-tonne EU trucks thundering through its Alpine passes.

The Swiss have agreed to phase out their 28-tonne lorry-weight limit by 2005 and put in place a non-discriminatory lorry charging system. In January Swiss negotiators and the European Commission reached a provisional accord on an average charge of Sfr328 for a 40-tonner to transit Switzerland on the main north-south route from Germany to Italy. For the Swiss, this is the minimum charge that, coupled with increased subsidies to the railways, can fulfil the terms of a binding 1994 referendum decision requiring transit freight through the Alps to shift from road to rail within 10 years. But EU transport ministers this month failed to approve the

deal, arguing that the charge was too high.

However, Switzerland's European woes are not just economic. In a rethink of post-Cold War defence needs, a commission chaired by former Swiss diplomat Edouard Brunner said bluntly last month that Switzerland's traditional neutrality and its militia army were irrelevant in the face of new threats, such as organised crime and international terrorism.

The best protection for the country would be EU membership and even membership of the Nato alliance, the commission said. Switzerland joined Nato's Partnership for Peace in December 1996.

"Swiss independence no longer consists of building a wall around one's own garden and defending it from outside attacks," Flavio Cotti, foreign minister and this year's holder of the rotating Swiss presidency, said in a recent interview.

He, the rest of the Swiss government, and most of the Swiss business and financial establishment, back eventual EU membership. But the 1992 referendum result, which led to a freezing of Switzerland's formal EU application, has made them wary of yet another rebuff.

Though opinion polls show a small majority of Swiss now favour EU membership, this may not be enough to carry the day in a national vote since opposition to the EU is concentrated in the rural German-speaking cantons which have disproportionate weight.

Nevertheless, two-thirds of those questioned in one recent survey said they expected Switzerland to be inside the EU early in the next century. "People see that they are isolated internationally but no longer truly independent," says Lukas Brunner, general secretary of the pro-European Swiss European Movement.

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